

Jobs for the boys

Michael Thompson-Noel



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Where there's wool there's brass

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# FINANCIAL TIMES

Monday August 24 1992

EUROPE'S BUSINESS NEWSPAPER

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## Germany's SPD reverses policy on immigration

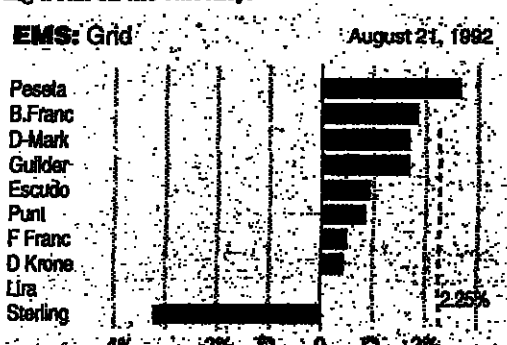
Germany's opposition Social Democrats have reversed their policy on refugees and the use of German forces in UN-led operations, which they now no longer oppose. The call for a change on immigration, by SPD leader Bodo Hombach, came on a weekend when over 200 skinheads and neo-Nazis clashed with police outside a refugee hostel in Rostock, eastern Germany. The police used tear gas and water cannons as the protesters, egged on by hundreds of spectators, threw petrol bombs, stones and fireworks at the hostel.

Israel's olive branch Israel announced it was easing some restrictions on Palestinians in the occupied territories and freeing 800 prisoners. Middle East peace talks are due to resume in Washington today. Page 10; Peace hopes and war fears, Page 8

Gloves off The Republican campaign turned ruthless as the party tried to link the Democrats and their presidential nominee, Bill Clinton with the troubled private life of actor-film director Woody Allen. Page 2

Hurricane hits Bahamas Hurricane Andrew tore across the Bahamas with 160mph winds. Four people were reported killed. About a million south Florida residents were ordered to leave their homes as the storm roared on towards Miami. "We're looking at a very, very bad storm and it's coming straight at us," said one US official.

European Monetary System Sterling and the Portuguese escudo dominated the European Exchange Rate Mechanism's grid last week. The pound virtually hit its floor against the D-Mark, putting the Bank of England under heavy pressure to intervene. The pound has diverged by 76 percentage points from its central rate and some dealers say that this puts the Bank under a moral obligation to intervene. The Portuguese escudo slid five places in the grid after the Bank of Portugal cut its intervention rate by 1 per cent, triggering a run on the currency.



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25 per cent fluctuation band. In practice, currencies in the EMS narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. Sterling, the Spanish peseta and the Portuguese escudo operate with six per cent fluctuation bands.

Kabul attacked again Afghan rebels renewed their bombardment of Kabul. The government retaliated, claiming to have captured a strategic hilltop. The UN said over 1,800 had died in two weeks of fighting in the capital.

Lebanese polls Lebanese in the north and east voted in the country's first general election since 1972. Two people were killed and many Christians boycotted the polls. Page 2

LSI Logic, the California chip maker, is closing its German plant, cutting US operations and shifting most of its manufacturing to Japan and the Asia Pacific region. About 450 jobs will go. Page 14

Cruise liner sinks More than 500 passengers were rescued when the cruise ship Royal Pacific sank after colliding with a fishing boat in the Malacca Straits. Two bodies were recovered and seven people were still missing.

Uni Storebrand's Anders Eckhoff, chairman of the beleaguered Norwegian insurer, is expected to seek boardroom backing today to expand the company's share capital by at least Nkr2bn (\$347m). Page 14

Duchess heads home The Duchess of York, centre of a scandal after being pictured on holiday with a Texas businessman, left the Queen's Scottish estate for her home in southern England.

Split over Efin Divisions have emerged among foreign banks owed money by Efin, the Italian state holding company which was put into voluntary liquidation last month. The banks are due to meet Italian treasury officials in London this week. Page 11

Black prisoner dies A 25-year-old man died in custody in Transvaal a day after being detained by South African police. He was the fifth person to die in the cells since an independent pathologist alleged four weeks ago that police regularly beat prisoners to death. Bad weekend, Page 3

Drought threatens city A million people may have to be moved from Bulawayo, Zimbabwe's second city, which is expected to run out of water next month. Almost half the country's industries are based in Bulawayo.

Egyptians rescued Helicopters and lifeboats rescued 22 Egyptian crew members when the 2,800-ton Sea Reefer ran aground off the northeast coast of Scotland.

Canada has reached outline agreement on constitutional reform. The deal stands a real chance of being accepted by all 10 provinces, including Quebec. Page 2

## Banks braced for pressure on dollar

By our Economics and Foreign Staff

CENTRAL BANKS around the world are today braced for renewed pressure on the dollar after the US currency breached its all-time low against the D-Mark at the end of last week. In the UK, pressure on sterling may require a rise in base rates to prevent the currency falling below its ERM floor.

Bank of England and Treasury officials were yesterday working on strategies to support the pound as Mr John Major, the prime minister, returned to London. Treasury officials said the government would do whatever was necessary to maintain the pound within its ERM bands.

In the US, the likely response of the Federal Reserve to a further decline of the dollar was uncertain last night. In spite of the failure of foreign exchange market intervention to halt the

dollar's slide on Friday, few Wall Street analysts believe the US monetary authorities are yet prepared to raise interest rates to defend the dollar.

The pressures resulting from the strong D-Mark seem certain to be on the agenda of a meeting of finance ministry officials from the Group of Seven leading industrial nations expected later this week to discuss a range of economic issues.

The dollar's decline led to a sharp fall in share prices on Wall Street on Friday, and caused severe strains on the weaker currencies in the European exchange rate mechanism.

Monetary officials in Europe are worried that a further fall in the dollar against the D-Mark could force several countries in Europe - including France and Italy - to increase interest rates at a time of weak economic activity.

In Germany, the Bundesbank is

Dollar invisible issue in US election, Page 4

Currency tacticians are ready to defend the pound, Page 4

Business braced for rise in rates, Page 4

Editorial comment, Page 6

Better news on the UK deficit, Page 15

Market falls under sterling's shadow, Page 14

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The emperor has no plan, Page 26

weekend President George Bush and Governor Bill Clinton traded punches on economic policy but neither saw the need to speak out on the dollar.

The Fed is unlikely to attempt to defend any particular value of the dollar, although it would strive to reduce the rate of dollar depreciation through carefully timed forays in the foreign exchange markets.

The US Treasury is thought to have supported concerted foreign exchange market intervention in recent weeks as much to ease tensions in the exchange rate mechanism as to defend the dollar.

If a further plunge in the dollar led to big falls in share and bond prices, however, the Fed might be forced to raise rates to restore confidence in spite of the damage this would do to Mr Bush's re-election hopes.

may buy pounds today in the foreign exchange markets, using its \$45.7bn foreign currency reserves. Another strategy thought to be under discussion at the Bank of England is to strengthen sterling by raising the rates at which it lends money to commercial banks and discount houses in the cash market.

A small rise in lending rates would not necessarily trigger a base rate rise. But, by the close of trading on Friday, prices in the sterling cash and futures markets were discounting a rise in UK base rates by 1/4 per cent.

Euro-sceptics within Britain's Conservative party have seized on sterling's weakness and the continuing recession to press their case for UK withdrawal from the ERM. Home loan societies warned yesterday they would be unable to keep their mortgage rates down if there was an increase in bank base rate this week.

## Crackdown on 'ethnic cleansing' aimed at improving Belgrade's image

### Panic faces challenge from Serb militants

By Laura Silber in Belgrade

MR MILAN PANIC, the Yugoslav prime minister, was on a collision course with militant Serb leaders in the northern Serb province of Vojvodina yesterday over his pledge to halt "ethnic cleansing".

Ultraradical Serbs in the village of Hrtkovci threatened to set up roadblocks if five of their leaders were not released from prison today. The five were arrested on Friday night for "endangering the freedom and rights of citizens of other nations" after spearheading the expulsion of some 5,000 Croats from Hrtkovci, formerly a predominantly Croat village.

The arrests appear to be timed to coincide with this week's London conference on the former Yugoslavia, in an attempt to improve the west's image of Yugoslavia. If the Serbian radicals remain in jail, it would signal that Mr Panic has enough power to back up his pledge.

The confrontation could destroy the fragile coexistence between Vojvodina's Serbs, who make up 55 per cent of the population, and its ethnic Hungarians and Croats. The wars in Croatia and Bosnia began when militants set up roadblocks, claiming territory as their own, and took up arms against their ethnic rivals.

Mr Ostoja Sibinčić, the village's



Peace overtures: Yugoslav federal leader Milan Panic said yesterday: "We are going to London to make peace."

mayor, was one of the five detained. He joined a group of Serb refugees from Croatia in ordering streets be renamed and demanding the name of the farming village be changed from the Croat-sounding Hrtkovci into Serbislavci, meaning "the place of Serbs".

Panic about being forced to abandon their homes. They told of escalating harassment, including death threats, if they refused to accept offers to swap their homes for the houses of Serb refugees from central Croatia.

Croat inhabitants of Hrtkovci last month complained to Mr

## Bae shrugs off Saudi move to defer £8bn air base project

By Daniel Green in London

BRITISH AEROSPACE, the troubled defence contractor, prepared yesterday to mount a damage control exercise following Saudi Arabia's decision to shelve the £8bn-10bn (\$15bn-18bn) Sulayli air base project. The base was to have been part of Bae's largest overseas contract, Al Yamamah 2, which is understood to be worth £30bn over the next decade.

Riyadh is paying Bae, as lead contractor on Al Yamamah 2, about £2bn a year for the rest of the decade for defence equipment, construction and services such as training. Bae has never revealed its own share of that total. In April, Bae received an instalment worth about £1.4bn.

News of the postponement comes at a sensitive time for Bae, which is being restructured in an effort to restore its financial health.

Mr John Cahill, the company's

new chairman, is expected to reveal progress on the restructuring in the company's interim results due late next month.

Bae confirmed the Saudi decision to shelve the project yesterday. But within the company it was being argued that the move was "not significant". Equipment, training and support were a far larger part of the Al Yamamah project than construction, it was said.

Postponement reflected a change in priorities for Riyadh and suggested that funds would be moved from the construction project to the purchase of fighter aircraft, it was argued. This could lead to Saudi Arabia increasing its order for Bae's Tornado IDS, the version of the aircraft designed for air-to-air combat.

The Tornado is competing with US company McDonnell-Douglas' F15E. Saudi Arabia already operates both Tornados and F15s and is in a position to buy more of either or both.

Officially, Bae would say only that: "We remain satisfied on the progress of negotiations over the procurement of further equipment for the Al Yamamah programme."

The Saudi decision will mean the transfer to other projects of 100 staff at Ballast Nedam, Bae's construction arm. They have been working on designs for the Sulayli base, intended to be a 900 sq km complex, about 300 miles south of Riyadh in a desert region known as the Empty Quarter. It would have included a town of more than 25,000 inhabitants, a 25 sq km airfield, three 4km runways, as well as ammunition dumps, hardened shelters and technical facilities.

Ballast Nedam, a Dutch construction concern with a long history of contracts in the Middle East, was the lead contractor for the base. A number of other large UK construction companies had tendered for work. Ballast Nedam was bought by Bae in 1987 for £90m.

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## NEWS: INTERNATIONAL

Deputy prime minister criticises call for renegotiation of IMF accord

## Russian bank chief 'playing games'

By Leyla Boulton in Moscow

MR Viktor Gerashchenko, chairman of Russia's central bank, has been accused by a senior minister of playing a political game in calling for renegotiation of the country's agreement with the International Monetary Fund.

Mr Alexander Shokhin, the deputy prime minister responsible for foreign economic ties, said in an interview yesterday that Mr Gerashchenko "says one thing to the press and another in real life." He added that the central bank chief had twice confirmed he supported

an accord unlocking an initial \$1bn (£620m) credit tranche before the IMF board met to approve it on August 4.

But on the eve of a meeting today with Mr Richard Erb, the IMF's deputy director, Mr Gerashchenko said in a newspaper interview he wanted to change IMF conditions for the loan. Mr Shokhin suggested the chairman might not put the issue so starkly to the Fund.

A western official said Moscow had already asked whether it could increase credit to boost the working capital of state-owned enterprises

from Rb150bn to Rb300bn in the second half of this year. The IMF agreement said the Rb150bn ceiling could be altered with Fund permission, but within an overall ceiling of Rb700bn for new credit to the economy.

Asked if the government had made the mistake of endorsing strict conditions it could not meet, Mr Shokhin said: "We can always talk to the Fund if we have problems carrying out what we promised to do." In contrast, Mr Gerashchenko seemed intent on making a "political drama" out of the issue.

Dumping the existing IMF agreement would make it difficult for Russia to obtain a debt rescheduling and more western funds. It could further damage faith in the country's reliability as a negotiating partner.

Even before Mr Gerashchenko's comments, it was obvious Russia was unlikely to meet the targets of cutting its budget deficit to 5 per cent of GDP by the end of the year and reducing inflation to 9 per cent a month. The central issue now is how far he can undermine government attempts to discipline enter-

prises through a tight credit policy.

A western official said: "It looks like Gerashchenko is trying to capitalise on the discontent of the industrial sector, to appear as the man who has the courage to stand up to the IMF and who will negotiate better terms so that the Russian economy is kept alive and not destroyed, as the IMF is supposed to want to do." Although the bank cannot unilaterally alter Russia's IMF agreement, Mr Shokhin acknowledged that lack of support from the chairman would undermine the accord.

## Adviser to Gaidar tells of 'mistake'

By Martin Wolf

WITH the mass privatisation programme announced last week by President Boris Yeltsin, Russian reform was now taking its "second step" after earlier price liberalisation - Mr Sergei Vasiliev, a close economic adviser to Mr Yegor Gaidar, the acting prime minister of Russia, has argued in London.

But the government had made its first mistake by not liberalising oil and energy prices in April, he admitted.

As a result, oil exports have been falling, wasted use of energy continues and administrative controls on oil exports have had to be maintained. The failure to liberalise also led to three months' stagnation in the reforms, while the opposition gathered strength.

Mr Vasiliev was announcing the appearance of a new quarterly journal, Russian Economic Trends, an English-language publication of the Russian government. Apart from latest statistics, it sets out the Russian government's economic strategy and its analysis of economic developments. Western aid could not solve the problems of so large a country as Russia. But western barriers to exports of high-technology products, textiles and farm products were an important obstacle to Russia's ability to exploit its long-term comparative advantage in trade.

The government was still unable to control the budget deficit, Mr Vasiliev said. But such control was necessary for a fixed exchange rate, needed to provide the predictable environment desired by foreign investors. Mutual credit lines had also to be set up among the countries of the former Soviet Union, he added. Where new currencies were created, floating rates of exchange would be needed, but Russia was prepared to help the other states by subsidising its exports of oil and gas.

*Russian Economic Trends*, Whurr Publishers Ltd, 19b Compton Terrace, London N1 2JN. Tel: 071-339-5375; fax: 071-226-5290. Subscription rates: 1992 (Vol 1, 3 issues) £110; 1993 (Vol 2, 4 issues) £150.

## Canada reaches agreement on political reform

By Robert Gibbons in Montreal

CANADA has reached broad agreement on constitutional reform, with the likelihood of acceptance by all 10 provinces.

Mr Robert Bourassa, Quebec's premier, who has traded a reformed Senate for a permanent guarantee of 25 per cent of the House of Commons and greater autonomy, has endorsed the deal.

The two provincial premiers who failed to accept the Meech Lake accord in June 1990, Mr Clyde Wells of Newfoundland and Mr Gary Filmon of Manitoba, are ready to fall in line.

But Mr Bourassa may well face stiff opposition from nationalists in his Quebec Liberal party. Quebec voters generally opposed Senate reform and nationalists say Mr Bourassa has obtained less than Quebec was promised in the Meech Lake talks.

The premiers of British Columbia and Alberta, who endorsed the deal with reservations, may also face opposition in their own provincial legislatures.

Mr Brian Mulroney, Canadian prime minister, said after a week of gruelling negotiations on the country's constitutional future: "We have the tools to secure our future together, our unity and our prosperity. It is a good deal for all provinces, although Quebec's nationalists will never get enough." The preliminary text now

goes for legal drafting and review by ministers later this week. The federal parliament and all provincial legislatures must ratify the final version. A national referendum is possible.

The main points are: ● The appointed Senate will become an elected body with a fixed number of senators from each province and one each from the Yukon and the north-west territories. It will have little legislative power.

● The Commons would be expanded from 285 to 337 members, with Quebec and Ontario each getting 18 more seats, British Columbia four more and Alberta two more.

● Quebec gets 25 per cent of the seats, providing a guarantee of its input at the federal level, and is recognised as a distinct, primarily francophone, society. Protection for English minorities in Quebec and French minorities in other provinces is provided. Quebec and all other provinces can veto changes to the Senate and other federal institutions.

● Aboriginal people get an "inherent right to self-government", but no new land rights.

● More powers are transferred to provinces that want them, mainly Quebec, but the problem of inter-provincial trade barriers has yet to be resolved. Mr Mulroney will have little difficulty in getting support from his own federal caucus in Quebec, but Mr Bourassa will face a full Quebec Liberal convention next weekend.

## Republicans resort to fire and brimstone

By Jurek Martin in Washington

IN savage campaigning over the weekend the Republican party for the first time sought to link the Democratic party and its presidential nominee, Mr Bill Clinton, with the troubled private life of Woody Allen, the actor and film director.

And President George Bush, addressing a meeting of fund-raising political activists, came close to accusing the opposition of being anti-religious. "I am struck," he said in Dallas, "by the fact that the other party took thousands of words to make up its platform and left out three simple letters, G O D."

The president and his surrogates emerged from the party's convention in Houston last week breathing fire and brimstone and encouraged by scattered polling suggesting Mr Clinton's lead in the electoral race has been reduced to single figures. A Los Angeles Times poll, for example, had him only eight points ahead, nearly 20 points below his previous lead.

But some of the Republican attacks are sure to trigger controversy, especially that delivered, in Mr Bush's presence, by Congressman Newt Gingrich of Georgia, an ardent conservative.

Warning up a rally for Mr Bush, he said: "Woody Allen having non-incest with a non-daughter to whom he was a non-family because they were a non-family fits the Democratic

platform perfectly." The Democrats, he said, had "no concept of family".

As is now standard practice, the Bush campaign issued a statement dissociating Mr Bush from Mr Gingrich's remarks. "The president is not going to make Woody Allen an issue," it said.

The Clinton campaign said the congressman's comments were "silly and outrageous".

The Rev Pat Robertson, a convener of the Dallas meeting and prominent at last week's convention, painted an even more Stygian picture of Democratic values in an extraordinary attack on feminism - typified in Republican eyes by Mrs Hillary Clinton - in a fund-raising letter he has written to an anti-feminist campaign in Iowa.

One paragraph runs: "The feminist agenda is not about equal rights for women. It is about a socialist, anti-family political movement that encourages women to leave their husbands, kill their children, practise witchcraft, destroy capitalism and become lesbians."

The Dallas meeting, to which Mr Clinton had turned down an invitation, made the Houston convention seem mild. The Democratic candidate, it was charged, was a friend of pornographers, would let homosexuals run the armed forces, and failed to understand that the hole in the ozone layer was an atheist plot.

The conservative Republican platform was frequently



Democratic presidential nominee Bill Clinton (right) listens as his running mate, Al Gore, addresses an audience in Cleveland, Ohio, at the weekend

praised for having put backbone into the president. Mrs Phyllis Schlafly, a leading opponent of abortion, called it "one of the cleanest, clearest victories we have had".

Conservative satisfaction of a different kind was also expressed yesterday by Mr Jack Kemp, the housing secretary, who said in a television

interview that he thought the president's acceptance speech had gone a long way towards meeting right-wing demands for a commitment to sharply reduced taxes.

Mr Clinton, in his weekend campaigning in the northern "rust belt" states, has not taken all this lying down, although he has focused more

on the economic issues which he considers his greatest strength. He came close to accusing Mr Bush outright of being a liar in describing as "untrustworthy" the president's promise to cut taxes next year, which have been coupled with attacks on Mr Clinton's alleged propensity to increase taxes.

## THE LONDON CONFERENCE

## Macedonia hovers in wings during Balkan drama

Laura Silber on fears that international opposition to the republic's independence could lead to unrest



## The Issues

## Balkans drama

Even though the republic has played by the rules of the European Community - complying with EC conditions on human and minority rights in order to win international recognition - it has remained the victim of Greek insistence that the name Macedonia is Hellenic property. In an attempt to placate Greece, the EC has said it will not recognise Macedonia until the southern Yugoslav republic changes its name.

This approach has also held sway in the wider international context. The US has postponed Macedonian recogni-

tion until after the November presidential elections, to avoid conflict with the large Greek community, according to western diplomats.

Politicians in Skopje, the Macedonian capital, fear history is repeating itself. Over the past century, whenever Macedonia has attempted to assert its identity as an independent state, jealous neighbours have provoked a war.

President Kiro Gligorov hopes the republic's status will be resolved when the London Conference on Yugoslavia convenes on Wednesday. "There is a real danger of war spreading throughout the Balkans if Macedonia is not recognised," he says.

Diplomats say the republic's population may run out of patience with western intransigence. "Macedonians are united in their refusal to change the name. There is a serious risk that the radical threat the Greeks say they fear could become a self-fulfilling prophecy if Macedonia is sen-

tenced indefinitely to purgatory," says one western diplomat.

While politicians in the republic do not expect a spontaneous uprising, there are several factors which could destabilise the republic.

Because of its sensitive geographical position they fear any unrest would trigger intervention by some, or all, of its neighbours - Serbia, Greece, Albania and Bulgaria.

Mr Ljubomir Frekovski, interior minister, believes the real danger is conflict in Kosovo, a Serbian province.

Leaders of Macedonia's ethnic Albanians, comprising about 35 per cent of the 2m population, warn they would fight to defend kinsmen in Kosovo in the event of Serbian aggression there. Serbia, hardened by war and traumatised by United Nations economic sanctions, might then intervene in Macedonia.

Albania has also said it would come to the aid of Kosovo's Albanians.



Turkey, which was among the first countries to recognise Macedonia, also appears interested in gaining influence in the Balkans and might intervene on behalf of both Albanian and Slavic Moslems.

President Gligorov admits violence in Kosovo could destroy the fragile co-existence between Albanians and Macedonians. Although in a minority, Albanians are better integrated into Macedonia than the majority Albanian population

in Kosovo. "Albanians are part of the parliament and the government. They share responsibility for the destiny of Macedonia," he says.

There is also the problem of ultranationalist Macedonians. Many fear that deepening economic deprivation, due both to the war in the former Yugoslavia and international sanctions against Serbia, will strengthen the hand of the far right.

The Internal Macedonian Revolutionary Organisation (VMRO) is the most extreme party on the Macedonian political scene. A faction of VMRO calls for the integration of Macedonia into Bulgaria.

Many Macedonians fear that, in the event of a war, Bulgaria, whose people consider Macedonians to be Bulgarians, would intervene on the pretext of aiding their kinsmen.

Mr Vladimir Milutin, a human rights activist and Macedonia's most respected theatre director, says the EC's failure to recognise Macedonia will radicalise the population. He fears that after the wars in Croatia, Slovenia and Bosnia, Macedonians will believe the only way to win independence is through conflict.

"Recognition would show there does not have to be bloodshed in order to gain independence. It was not necessary to take up arms to win," he adds.

Leading politicians believe the short-term violence can be avoided through bolstering economic ties with countries which have recognised Macedonia.

But President Gligorov sees aid as necessary to keep the economy from running aground.

At the very least, he says, Macedonia should be compensated for the effects of UN sanctions against Serbia and Montenegro.

Mr Milutin is less diplomatic. He wants "that without economic aid, the third Balkan war will begin on the territory of Macedonia."

## Szczecin holds key to cross-border regional renaissance

Germans and Poles look to the port to power development, writes Andrew Fisher



## The European Market

## Szczecin

IN Poland they call it Szczecin, one of the country's largest ports and a gateway to the Baltic, Scandinavia and the rest of northern Europe.

But to the Germans it is still Stettin, once sold by Sweden to Prussia and then taken from Germany after the second world war. The city of 411,000 people lies at the mouth of the River Oder, which forms part of the border separating the two countries.

Szczecin, with its grand 19th century avenues and parks, suffered severe damage during the war, much now repaired. Today it is at the centre of tentative moves towards economic and political co-operation that hold out the hope of renewed prosperity for the region of Pomerania spanning both countries.

long way from realisation. But the will is there on both sides since the fall of the Berlin Wall opened up a new era for the region's 1.5m inhabitants.

On the east German side there is an eagerness to reach across the Oder and develop Pomerania as an economically viable cross-border region, with Szczecin as its natural centre. "We've got to start rebuilding links with Poland now," says Mr Rainer Haedrich, head of the local council in Pasewalk, a small German town at the far eastern edge of Mecklenburg-Vorpommern, the agricultural state next to Poland. "We must take that step."

The Poles are keen, since the prospect of Szczecin being able to benefit again from its former hinterland is attractive. There is also the prospect of EC funds under a programme for border regions. Arthur D. Little, the US consultancy advising the

German side, suggests comparisons with the *maquiladora* system of labour division in the border free-trade zone between the US and Mexico.

Since 1990 about 2,000 US companies have created half a million jobs on the Mexican side. But before anything like this can happen, considerable work and money will be required on both sides. The main prospects for increased co-operation are in tourism - the largely enclosed bay area north of Szczecin is especially attractive for yacht owners.

Against this background it is hardly surprising that many Germans in the region are hopeful of renaissance in Szczecin and its nearby sister city of Swinoujscie (Swinemünde), which handles bigger ships. The Poles, too, are keen to develop business, seeing their port complex as a natural link with Berlin.

"We are more favourably placed than Rostock (the east German port city further east)

to serve the Berlin area," says Mr Jan Grenke, Szczecin port's chief technologist. "Historically, Szczecin was the main port for Berlin." It was also part of the pre-war route between Scandinavia and Prague.

There is potential for growth. Some German companies are

interested in using Szczecin and Swinoujscie to ship timber, chemicals, building materials, and other goods in and out of Germany. Szczecin also wants to set up a customs-free zone.

In recent years the two ports, employing nearly 5,000 people, have operated at well below capacity, mainly because of the drop in Polish coal mining and the loss of some markets. To develop new business, the port wants to build a multi-purpose terminal in Szczecin for container and roll-on/roll-off vessels.

Swinoujscie also needs new handling and storage facilities. Since the ports do not have the money, they are looking for German, Scandinavian, and other partners. "We have the land, but because of our economic situation we have no funds," Mr Grenke laments. Language is one difficulty, since the Poles - at least, the

younger ones - prefer to speak English, which was hardly taught in the old East Germany. But Polish is now starting to be taught on the east German side.

The east Germans also plan business parks to attract investment in light industry and services. In Ueckermünde a DM90m (£21.2m) marine harbour is being developed to attract prosperous Berliners who want to sail in the attractive Oder bay straddling the border. Pasewalk has hopes it can attract investment to build a DM1bn cement complex on the site of a limestone deposit.

For the east Germans the possibility of a revived Pomeranian region with its heart in Szczecin makes the present economic uncertainties easier to bear. Says Mr Peter Heise, head of Pasewalk's economic development department, hopefully: "We want to give this region, which is away from the main centres of economic development, a better image in the outside world."

## Azerbaijani jets 'kill 40 in raids'

AZERBAIJANI warplanes bombed the disputed territory of Nagorno-Karabakh at the weekend, killing dozens of civilians, Russian television said yesterday. Reuter reports from Moscow.

An evening news report showed people being dragged from the debris of a refugee hostel it said was destroyed on Saturday when an aircraft dropped two bombs on the Karabakh capital, Stepanakert. Some 40 people were reported killed in Saturday's attack by Su-25 planes and 100 wounded. Others died in a raid yesterday.

A spokesman for the Karabakh Committee, which represents ethnic Armenians in the enclave, said many more had been killed and injured. Bomb attacks killed several people in the nearby town of Shusha on Saturday.

"The main victims were old people, women and children. Many of them remain under the rubble of destroyed buildings, the clearing of which is made more difficult by the

panic which has gripped people," the Armenian news agency said. Azerbaijan has made no statement.

More than 2,000 people have been killed in four years of fighting between the former Soviet republics of Armenia and Azerbaijan. The conflict is mainly in and around Nagorno-Karabakh, an Armenian-populated enclave within Azerbaijan. But it has spread to wide areas along the border between the two Caucasian neighbours, both members of the Commonwealth of Independent States which replaced the old Soviet Union.

Russian TV showed Azeri aircraft dropping what it said were half-tonne bombs on Stepanakert. A string of Armenian victories earlier this year succeeded for a time in driving enemy forces out of Nagorno-Karabakh. But Azerbaijan has since seized the initiative, regaining a foothold in the territory and capturing Armenian land. Peace negotiations and several attempted ceasefires have foundered.

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# Lebanese choose MPs for first time in 20 years

Lara Marlowe in Baalbek sees Hizbollah make the transition from guerrilla group to mainstream political party

MOSLEM and Christian residents of northern Lebanon and the Bekaa Valley voted yesterday in Lebanon's first parliamentary elections in 20 years.

A few ballot boxes went missing with voters' lists, irregularities which appeared to favour government candidates. But the pro-Syrian Shia Muslim Hizbollah movement, the most popular party in the Bekaa Valley, said it believed the poll was free and fair.

The Hizbollah fielded four candidates in the Baalbek-Hermel region, marking its transition from a secret guerrilla movement associated with the kidnapping of westerners in Lebanon to a mainstream political party.

The poll went ahead despite objections by Maronite Catholics, concentrated in the mountainous coastal strip running from east Beirut up to Jbeil, and in the Israeli-controlled "security zone" in southern Lebanon. These regions observed a "day of mourning" in protest at the poll yesterday.

But Christians in northern Lebanon and the Bekaa are generally allied with Syria and participated in the voting. "We would not participate in this election if we did not think it was free," Sayyid Ibrahim Amin, a Shia cleric, member of the Hizbollah political bureau in Beirut and the leading candidate on Hizbollah's list, said. "This doesn't mean that the government will not do some cheating. Elections that are 100 per cent free and fair exist only in paradise, and we do not live among angels."

Down the hill at Baalbek's Palmyra Hotel, the Lebanese Speaker of Parliament Hussein Hussein, Hizbollah's main opposition in the Bekaa, was concluding an election-day meeting with Gen Ghazi Kneass, the chief of Syrian military intelligence in Lebanon. Syrian troops and plain-

clothes intelligence officers manned checkpoints every few kilometres throughout the Bekaa, but there were no Syrians in the villages or polling stations.

The Hizbollah are the only party to have published an election programme for the controversial poll, which is scheduled to continue next week in Beirut and Mount Lebanon and on September 6 in the south.

Many Shia voters said yesterday that they supported Hizbollah because it was the only group in Lebanon which continues to fight the Israeli occupation of the south. But the "Party of God's" social programmes in the Bekaa, which

**Elections that are 100 per cent free and fair exist only in paradise, and we do not live among angels'**

include Iranian-financed supermarkets, schools and hospitals, have also won it the loyalty of many in this neglected region.

Hizbollah candidates claim they will improve living conditions for the poor throughout Lebanon if they are elected. "In some of the world's worst dictatorships, people are respected to the extent they have water, electricity, streets, hospitals and job opportunities," Sayyid Ibrahim Amin said.

"These are not available for a large segment of the Lebanese population. The Lebanese people live in a system that despises them. This didn't start with the civil war. It's been going on for 50 years."

Condemnation of the Maronite elite who ruled Lebanon

until the civil war was implicit in Sayyid Ibrahim's speech. The majority of Maronites, about a third of the population of Lebanon, are boycotting the legislative elections because 40,000 Syrian troops are still in Lebanon. "Was the election of Bashir Gemayel in 1992 free, with Israeli troops in Beirut?" asked Sayyid Ibrahim. "It was the same parliament that elected him. If they had opposed the 1992 presidential election, their opposition today would be more credible."

The enmities of the 1975-90 civil war still linger. "The Maronites are saying these elections are not fair because that is their last excuse," Ali Shirazi, a 20-year-old French literature student and Hizbollah supporter from Baalbek, said. "They are sulking because they are losing their domination over everyone else in Lebanon."

Twenty-five kilometres from Baalbek, in the Shia village of Chnestar, Mr Tadel Salman, the editor of *As Safir* newspaper, one of Beirut's main dailies, said he understood the Maronites' reservations but regretted their boycott of the poll. "The balance of the country will be lost through their decision," he said, pointing out that there are no Syrian soldiers in the Jbeil and Kesrouan regions, where opposition to the vote is highest.

Mr Salman, whose newspaper is considered pro-Syrian, noted that Syria was named in the 1989 Taif Accords to help implement the peace plan. "Syria has lost the lives of many soldiers in 15 years in Lebanon and they see political influence as payment for that sacrifice. Israel, by occupying part of Lebanon, gives Syria the right to be here. You cannot tell the Syrians to go while Israel is still here," he said. In the run-up to yesterday's elections, Lebanese officials travelled every day to Damascus to



A Moslem woman votes in the elections in Baalbek, east Lebanon

confer with Syrian Vice President Abdel Halim Khaddam. "This silly government in Lebanon doesn't have the confidence to make its own decisions," Mr Salman said. "Over the years, the Maronite leaders were the ones who went most often to Damascus to ask favours. This is a transitional period after the war, and it will

pass."

Meanwhile, women in chadors and girls in tight blue jeans, Hizbollah fighters, lawyers and teachers crowded into the Chnestar girls' public school down the road from Salman's house to post their ballots under the watchful eye of Lebanese policemen armed with automatic rifles.

Mr Habib Shadad, a civil servant in suit and tie from the Ministry of the Interior, sat next to a metal ballot box securely closed with two padlocks, in the presence of representatives of the five competing candidates' lists. Shadad held his right hand over the slot in the top of the ballot box at all times, lifting it only

when voters had shown their identity papers, been checked off on the voters' list and slipped their ballot into a ministry-stamped envelope. "This is my responsibility before God," he said of his role in supervising the election. "I am 30 years old and I never voted before today. I hope we have elections every

day, so we can express our opinions like the French do." But would the elections be free and fair, in view of the presence of Syrian troops? The civil servant's spontaneous reply: "God willing," he said. "According to what I heard from the media and [Syrian] President Hafez al-Assad, it will be."

## NEWS IN BRIEF

### Japan party chief's aide 'given Y500m'

A SECRETARY to an influential ruling party politician is reported to have accepted hundreds of millions of yen from a transport company at the heart of Japan's latest funding scandal, Reuter reports from Tokyo.

A secretary to Mr Shin Kanemaru, vice-president of the Liberal Democratic party (LDP), received Y500m (£2m) in cash before the 1989 election from Mr Hiroyasu Watanabe, former chief of Tokyo Sagawa Kyubin, television and newspapers said.

The daily Asahi Shimbun said Mr Watanabe, 58, admitted handing the money to one of Mr Kanemaru's secretaries in June 1989 in the parking lot of the Tokyo building where many leading LDP members have offices. Asahi said one of Mr Kanemaru's secretaries strongly rejected the allegation.

### Cruise liner sinks

Malaysian sea-rescue teams were still searching last night for those missing after a cruise liner with more than 500 passengers and crew sank in the Malacca Strait, about 15 miles off Malaysia, writes Kieran Cooke in Kuala Lumpur.

The Bermuda-registered Royal Pacific was in collision with a Taiwanese fishing vessel early yesterday. Survivors said it sank in minutes. Malaysian authorities said most of those on the ship had been rescued but two were dead and several other passengers missing. Most of those aboard were believed to be Singaporeans.

### Kabul fighting kills 1,800

At least 1,800 people have been killed, many of them women and children, in two weeks of bloody factional fighting in Kabul, Reuter reports from Islamabad.

Several thousand have been injured since Hezb-e-Islami Mujahideen and forces loyal to the Islamic coalition government joined battle two weeks ago, a senior United Nations official said.

An estimated 128,000 of the 1.5m residents of the Afghan capital have fled, Mr Sotirios Mousouris, personal representative of the UN secretary-general in Afghanistan and Pakistan, said. UN agencies working in Afghanistan have prepared an emergency package of \$10m "to address the urgent humanitarian needs of the country arising from the current hostilities", he added.

### Iran 'bans free speech'

Freedom of expression in Iran is still "brutally suppressed", despite the victory of "moderates" backed by President Ali Akbar Hashemi Rafsanjani in elections, Article 19, the international anti-censorship pressure group, says, Edward Mortimer writes.

Under Mr Rafsanjani, the group says in a report published today, journalists have been arrested, newspapers banned and newspaper offices ransacked by government officials or hardline opposition groups, whose activities go unpunished. The clampdown on journalists and artists "continued with renewed vigour" after widespread anti-government riots and demonstrations against housing evictions in April and May, and in June the new parliament reaffirmed the late Ayatollah Khomeini's death sentence against Mr Salman Rushdie.

(Iran: press freedom under the 'moderates', published by Article 19, 90 Borough High Street, London SE1 1LL.)

### Chinese phone numbers sold

The upwardly mobile of Beijing's were out in force at the weekend for the first auction in the Chinese capital of auspicious telephone numbers, writes Yvonne Preston.

Bidding was brisk for multiple six or eight numbers and for combinations of the two. To the superstitious, the number six denotes luck and eight means wealth. The top price of 65,000 yuan (\$16,250) was paid for a mobile phone number 901 9888.

Official statistics show the average number of telephones per 100 persons to be 1.29 in 1991.

### Disputed glacier discussed

India and Pakistan have agreed to high-level discussions on pulling back troops from a disputed Himalayan glacier, Reuter reports from Islamabad.

Defence Ministry secretaries of the two countries will meet in late October or early November to sort out differences on redeployment of troops, Pakistani Foreign Ministry secretary Shahar-yar Mohammad Khan told reporters.

Clashes have occurred as Pakistan repeatedly tried to retake the glacier in an unmarked portion of a military control line dividing Kashmir into Indian and Pakistani zones.

## Kuwait plans to spend \$12bn on building up armed forces

KUWAIT has allocated an extra KD3.5bn (\$12bn) to spend on buying advanced weapons and building up its armed forces over the next 12 years, Reuter reports from Kuwait.

A decree from the Emir, issued late on Saturday, said the government was authorised to draw the KD3.5bn from its general reserves and add it to money already allocated to bolster Kuwait's defence.

"The Higher Defence Council is authorised to allocate the sums needed for every financial

year for 12 years beginning from the financial year 1992/1993," the decree said.

"Those sums which are not spent in every year will be transferred to the subsequent year." It was not clear exactly what was meant by the amount already allocated for Kuwait's defence. Economists said they believed money drawn from the KD3.5bn would most likely not be included in budget projections, but would be added to final accounts drawn up at the end of each fiscal year.

Kuwait raised defence spending in fiscal 1991/1992 five-fold from the previous year but the increase was mainly due to huge contributions towards the costs of allied forces which ended Iraq's seven-month occupation.

Kuwait has not announced a defence allocation for its current 1992/1993 budget, which forecasts a drop in total spending to KD4bn from an estimated KD6.2bn in 1991/1992.

But it has said non-recurring war costs would fall to KD2.2bn in 1992/1993 from KD4.5bn the

previous year.

Diplomats say Kuwait's plans to overhaul its armed forces and buy hundreds of tanks, armoured personnel carriers, helicopters, artillery and air defence systems are still being worked out.

No exact breakdown is available, but economists say the emirate's general reserves and overseas assets have dwindled to less than \$40bn from \$100bn before Iraq's invasion because of heavy Gulf war spending.

## Middle East orders \$35bn in arms since Iraqi invasion

By a Financial Times Reporter

MILITARY equipment and arms worth between \$35bn and \$45bn (\$18bn-£23bn) have been ordered by Middle Eastern countries since Iraq invaded Kuwait, according to the Saeferworld Foundation, a think tank and pressure group based in Britain.

It suggests in a report today that "unless the major powers and the countries of the Middle

East learn the lessons of history and work to reduce and control arms transfers to the Middle East, the hopes for the peace process, currently so high, may disappear beneath an arms race that perpetuates instability, conflict and bloodshed in the Middle East."

Saeferworld says the US has received orders worth about \$28.5bn, principally from Saudi Arabia, which has ordered more than \$17bn worth of equipment.

The 1992 "Javit's list", which sets out the US's expected arms exports for the year, predicts sales worth \$35bn, mostly to countries in the Middle East.

The report says the US government "has helped its manufacturers by providing Desert Storm veterans to recount their experiences at arms fairs, such as the Paris Air Show. The Pentagon has also provided equipment used in the Gulf War free of charge, saving manufac-

turers hundreds of thousands of dollars in leasing and transport costs."

Saeferworld says the UK has received orders worth about \$4bn in which Tornados, Hawks and other aircraft figure prominently. "Russia, Germany, North Korea, China, Czechoslovakia, France and other industrialised countries have all received orders from the Middle East. Saudi Arabia, Israel, Kuwait, Iran, Turkey, Egypt and Syria lead the importing nations."

## Korean minister in China for talks

By Yvonne Preston in Beijing

MR Lee Sang-ock, South Korea's foreign minister, arrived in Beijing yesterday for talks with Chinese leaders expected to result in the establishment of diplomatic relations between the two former enemies. An announcement is expected today.

Normalisation between the two countries has been on the cards for some time, with the rapid expansion of economic ties. Total trade volume reached \$5.8bn (£3bn) last year and is forecast to exceed \$10bn for 1992, making South Korea China's fourth biggest trading partner after Hong Kong, the US and Japan.

Last year both countries signed an agreement giving each other "most-favoured-nation" status for investment and business ventures. South Korean investment topped \$130m in 1991, quadrupling that of 1990.

This year the two countries agreed to exchange Bank of China and Korean Exchange Bank offices in each other's capitals.

Mr Lee visited Beijing in April for a meeting of the Economic Commission for Asia and the Pacific. At that time he was the highest-ranking minister from Seoul to have visited China.

North Korea is certain to be unhappy at the prospect of diplomatic ties between its northern neighbour and China. China has backed the North since partition of the peninsula after the second world war,



Lee Sang-ock (left) meets Zhang Dingyan of China's Foreign Ministry in Beijing

while the US was patron to the South during the decades of the cold war.

Mr Lee made no comment on arrival at Beijing but last May he told a seminar in Seoul that relations between China and South Korea would act as a "catalyst for change".

"Lingering of the cold war on the Korean peninsula and North Korea's continued isolation certainly are not desirable for South Korea, North Korea and China," Mr Lee said. China's interest in normalisation lies in South Korean investment and trade.

● Taiwan, shrugging off its

worst diplomatic setback in a decade, said its foreign policy would not change following South Korea's move to switch diplomatic recognition from Taipei to Beijing, Reuter adds from Taipei.

Government leaders said the island would retain its claim of sovereignty over China and continue seeking to build unofficial ties with countries that recognise Beijing.

"We will continue to push forward our long-standing policy of flexible diplomacy in order to expand links with the world," President Lee Teng-hui said.

## Bad weekend for South Africa's right-wingers

By Patti Waldmeir in Johannesburg

RIGHT-WING whites in South Africa had a hard time over the weekend.

Rugby, the national sport of the right, dealt them a cruel blow when the South African side lost to Australia 26-3 (though the relatively civilised behaviour of the fans at least ensured that future rugby tours should not be in jeopardy).

And right-wing politicians took a small step towards acknowledging the end of white hegemony when they agreed to participate in "talks about talks" on a post-apartheid constitution which, even if they have their way, would leave whites with a much smaller share of land and privilege in South Africa.

The weekend ended what has been a rough month for the right: Mr Eugene Terreblanche, leader of the paramilitary Afrikaner Weerstandsbeweging (Afrikaner Resistance Movement or AWE), has had his sexual relationship with a South African journalist exposed in the British courts in sordid detail.

Mr Terreblanche had already become a figure of fun when he tumbled from his horse last March at a right-wing rally in Pretoria. Now that the court has barred Mr Terreblanche's green underwear to the world, it is difficult to see him leading a ferocious Afrikaner nationalist resistance to reformist President F.W. de Klerk.

Indeed, lack of leadership appears to be the right wing's main weakness at the moment. Mr Andries Treurnicht, leader of the right-wing Conservative party, the official parliamen-

tary opposition, is an old man weakened by the referendum result, and is scarcely likely to survive much longer at the CP helm. And there is no heir apparent to Mr Terreblanche, a powerful orator whose humiliation weakens the right-wing cause.

But if the right lacks leader-

'Verwoerd joins ANC'

Wilhelm Verwoerd, grandson of former South African prime minister Hendrik Verwoerd, the main architect of apartheid, has joined Nelson Mandela's African National Congress, South Africa's Sunday Times reported, Reuter reports from Johannesburg.

It quoted his wife Melanie as saying: "We hope our work within the ANC will, in some small way, make up for the hurt caused to so many people by Dr Verwoerd, the Verwoerd name and the policy of apartheid which he personified."

Hendrik Verwoerd was

prime minister from 1958 until he was assassinated in 1966.

ship, it does not lack support. Over 30 per cent of the white electorate voted for the right in the recent referendum, and there are believed to be well over a hundred small ultra-right groups (many of them paramilitary) operating throughout the country. They could prove a powerful force if united.

For the moment, unity is

by-election earlier this year prompted Mr de Klerk to call a referendum to prove his support among whites, the new party advocates negotiation with blacks for a much smaller separate white homeland in the northern Transvaal and parts of the Cape. (The Conservative party says it wants a larger homeland covering the 41 constituencies won by the CP in the 1989 elections and by-elections.)

Though it is too soon to gauge the new party's support, its formation has provoked a number of resignations from grass-roots party organisations, and its more moderate stance appears to have forced a measure of moderation on the parent Conservative party as well. Last Saturday the party decided after a special congress that it would participate in talks with the Zulu Inkatha Freedom party, and possibly the National party, about the failed Codesa constitutional talks, suspended since June.

Mr Treurnicht, who has raised evasion to an art form during his long political career, refused to be drawn on whether the Conservatives would join negotiations with the African National Congress (ANC) on a post-apartheid constitution. But it seems likely that the weekend decision to attend "talks about talks" could eventually lead to negotiations with the ANC.

Both the ANC and the National party hope that the Conservatives can be drawn into talks. They worry that white separatists could turn to violence if they feel that they have been barred from all peaceful avenues to achieve their aim of national self-determination for the Afrikaner.







## Business braced for rise in rates

Two things are clear in the debate over the quality of American workers. The first is that employers are worried about the abilities of their employees; the second is that they are not sure what is wrong. "They do not know what the hell they are talking about. That's the problem," says Arnold Packer, director of a government inquiry into the skills that employers demand from workers.

Even employers agree with that criticism. "Most employers are not very sophisticated about what they want from workers. They only know it when they see it," says Renee Lerche, Ford's manager of employee development. Corporations complain of a range of problems from literacy and numeracy, to poor reasoning ability, and difficulty in working in teams.

Such complaints are not prompted by falling skills standards among employees. The young workers about whom employers worry have on average achieved more at school than those they accepted without complaint in the 1970s. Average scores in the Scholastic Aptitude Test for school-leavers rose in the 1980s after falling in the previous two decades. The problem comes from changing employer demands. Two trends in skill demands can be distinguished.

One trend is a growth in demand for more highly-educated workers - in particular a boom in middle-level technician jobs such as paralegals (legal assistants) and medical technicians. There is expected to be a 76 per cent growth in the number of paralegal jobs in the US between 1985 and the turn of the century.

Stephen Barley of Cornell University says this shift is caused partly by aspects of managerial work being given to technical support workers, and partly by mechanisation

American employers are becoming more demanding of their workers, reports John Gapper

## Redefining the three Rs

tion in plants and offices. This cuts the number of low-skilled jobs but requires more technicians to supervise machines. Most of these new technical jobs require further education for a two-year degree at an institution such as a community college.

A second trend is greater requirements for workers with basic levels of education. An example is the entrance test for workers at New United Motor Manufacturing (NUMMI) in Fremont, California. Although NUMMI does not require assembly workers to have high school diplomas, it tests recruits on their ability to work together by asking them to take part in mock group discussions about production problems and planning.

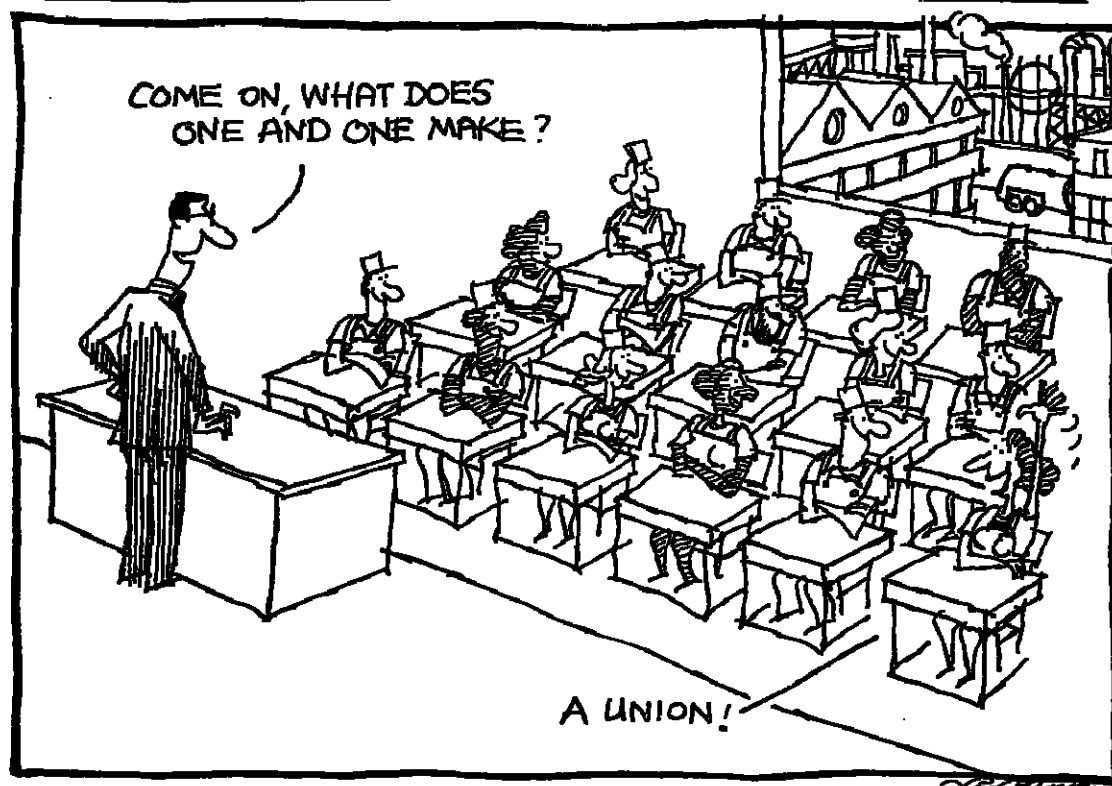
This shift in skill requirements has several strands. One is the increased need for problem-solving: devolution of authority to lower levels in organisations demands greater intellectual skills in entry-level workers. A second strand involves attitudes. The belief that applicants lacked the attitude to adapt to the workplace was easily the most common complaint by employers in a 1990 National Association of Manufacturers survey.

Peter Cappelli, co-director of the

National Centre on the Educational Quality of the Workforce at the University of Pennsylvania, argues that the requirement for employees to work in teams means that organisations are more concerned about workers being disciplined and committed to achievement. "If you reduce supervision and monitoring, bad work attitudes tend to show up more clearly," he says.

Such changing needs for workers with high school education can be seen by looking at training and re-education programmes run by US companies over the past five years. Large employers including Polaroid and Digital Equipment have spent considerable sums upgrading the skills of adult workers. They have been prompted by both skill shortages, and a tradition of investing in current workers rather than hiring others.

Many of the workers involved in what Polaroid calls the hardware apprenticeship programme are first generation immigrants from Haiti or



the Cape Verdean islands. The change in work organisation required them to work happily together and take responsibility for quality control on their section. Managers estimate the jobs now require formal education probably only equivalent to the sixth grade level - the standard of an intelligent 12-year-old.

Yet Polaroid believes it would have been impossible to ask the employees to work successfully in teams and solve basic assembly problems if they had not taken the lessons. Jim Mahoney, the plant's

manufacturing manager, says the assembly line job in its new form needs workers to make presentations and participate in team meetings. "Without the education, it would simply have been a waste of time to send them on team-building courses," he says.

Acquanetta Farrell, Polaroid's director of technology readiness, argues that public schools are now failing to prepare students for even the most basic jobs. "In the classroom, they are told to sit down, fold their hands and shut up. Then when they leave we suddenly ask

them to work together in teams and participate in making things run," she says.

Digital Equipment has had a similar experience at its software manufacturing plant in Westminister, Massachusetts. As part of a switch to team working, employees from engineers to shopfloor workers have been offered re-education in the past four years. The company believes the gains from this are hard to quantify, but it has improved quality and output at the same time as cutting the workforce from 830 to 690.

"People have much more confidence and sense of self-control and leadership," says Barbara Strisgall, the plant planning and development manager. She argues that there is a strong correlation between the level of education and the ability to work with other people and contribute to innovation and quality improvement.

The result of experiments such as those at Polaroid and Digital is that many US corporations are now questioning whether US high schools could provide better basic education for work. Employers in some school districts have started trying to define better the requirements of new jobs. Fort Worth Independent School District in Texas has carried out extensive job analyses in local companies to find out what pupils should be taught.

The biggest federal effort has been the Secretary's Commission on Achieving Necessary Skills (Scans) inquiry, headed by Packer, which issued its final report in April. The inquiry concluded that employees now had to have the ability to work with others and analyse information, in addition to basic thinking and reading skills. It found that teaching methods in most US schools were ill-suited to produce these new abilities.

Packer argues that the broader range of skills needed by employers means workers need to be taught how to analyse and debate in high school, and not just in colleges. But he does not underestimate the size of the challenge this presents to educators. "We are asking everyone to re-examine something they thought was settled long ago," he says.

The author is a Harkness Fellow of the Commonwealth Fund, New York. This is the second in a series of articles on US education and training. The first appeared on August 17

Two years ago IBM, with its eye very much on the need for cross-border integration ahead of 1993, unveiled a far-reaching European reorganisation.

The strategy of the computer giant's move was eminently sensible: in essence, it consisted of a decentralisation around Europe of most of the regional responsibilities long exercised by IBM Europe's headquarters in Paris. But, from the very start, the precise pattern of the restructuring looked too neat and textbookish to be true.

In a set of patent political compromises, the HQ's regional responsibilities were parcelled out to the general managers of the four largest country organisations. With a new European title to his name, each took charge of strategy for one or two types of product or system,

and one or two customer sectors.

The chairman of IBM Germany gained mainframe computers plus manufacturing industry; his French counterpart got telecommunications, "professional and technical services" (including maintenance and systems integration), software and IBM's internal computing systems; Italy took over mid-range machines, scientific computers and government and the public sector; while the boss of IBM UK took charge of personal computers and "Unix" open systems products, as well as the banking and financial services sector.

Sure enough, within a year two aspects of the neat reorganisation

Christopher Lorenz urges slow cross-border integration

had to be reversed in rather embarrassing circumstances because they had proved inappropriate. First, responsibility for PCs was transferred back from the UK to IBM Europe; then the latter also resumed professional and technical services from the French organisation. The principle of some businesses being run centrally was thereby reasserted.

To most IBM insiders, this episode pales into insignificance compared with last summer's much more dramatic reorganisation of IBM worldwide into a number of

arm's length product/systems businesses and marketing/service units. But to the outside world it typifies the dangers of trying to create every aspect of a pan-European organisation too rapidly and too neatly.

The risks of doing so are underlined by four McKinsey consultants - though without any reference to IBM - in an article called "Creating European organisations that work", published in the latest issue of the McKinsey Quarterly.

Experience shows, say the consultants, that the best way to Euro-

peanise is to shift power gradually (a tactic which IBM had been following until 1990). Most successful efforts focus initially on only a few "lead functions", where the need is most apparent and urgent and where good early results can cause a ripple effect which gradually overcomes nationalistic attitudes and practices.

Procter & Gamble, the American consumer goods group, did this by introducing a "Eurobrand" concept to bring national product managers together in a task force to thrash out common brand requirements. In

another food company, the key lever was a manufacturing task force, and a freight company set up a pricing task force.

But only when such groups get down to nuts-and-bolts practicalities does commitment to a common European vision - and actual co-ordination - really start to develop, say the consultants. In addition to its main objective, the pricing task force also uncovered a need for better cross-functional co-ordination on such issues as sales management, product labelling and packaging, and distribution.

When it actually comes to realigning the power structure "short cuts do not work", warns the McKinsey

team. Simply imposing a functional "head of Europe" frequently proves ineffective because such people do not have power over - and respect from - the various national operations.

When a German company appointed a European operations manager, it left control of production in the hands of its product managers in Germany. So sales and marketing companies elsewhere in Europe found they were better off ignoring the new Euro-manager and continuing to deal direct with Germany.

One obvious approach, as at IBM, is to give the managers most threatened by prospective changes part of the responsibility for planning and executing them.

\* 1992 No 2. By Norman Blackwell, Jean-Pierre Bizet, Peter Child, and David Hensley.

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## Architecture

## Bauhaus changes its contours

Günter Kowa finds the institution embarked on an environmental rethink

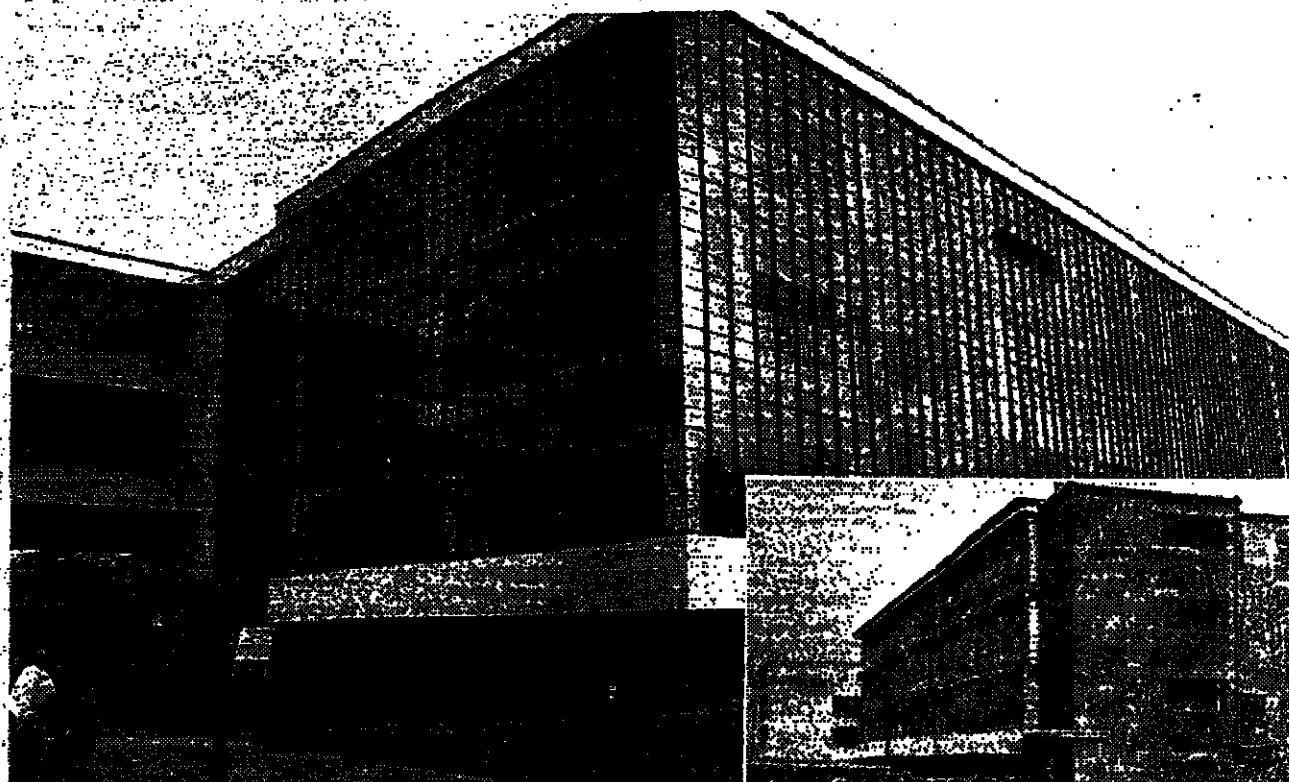
WITH his dark, bushy beard, Rolf Kuhn, director of the Bauhaus, looks an unlikely successor to Walter Gropius and Mies van der Rohe. He has inherited the fame and the burden of an institution that revolutionised 20th century architecture and design, today it is based in what appears, after 40 years of neglect, a nondescript, dilapidated town in former East Germany.

The Bauhaus, however, remains Dessau's most famous building, capable of overawing the visitor by the serene proportions of its interlocking glass and steel structures, seemingly untouched since it opened in 1924.

The perfect exterior conceals a history that Bauhaus admirers in the west are only now learning about. The institution is setting out on a course which, according to Kuhn, redefines its original purpose in the social and architectural context of the present day Germany.

Kuhn has some explaining to do, since he was appointed under the old regime in 1988. Although a communist party member, he played a significant part in the mass protest that swept through Dessau in November 1989. When he came to office, the Bauhaus was still regarded as a showpiece of the regime's preservation of which the regime boasted to the world. The further education seminars for architects conducted at the Bauhaus for many years had little impact on the stifling monotony of the housing estates and new towns built during the 1970s and 1980s in East Germany.

The regime had discovered a grudging love for the institution late in the day - at the end of the 1980s, when Soviet scholars began to take an interest in the left-wing traditions that enlightened the Bauhaus of the 1920s. By the time a faithful restoration of the building was under way in 1970, East Germany had begun to claim separate nationhood.



Metamorphosis: the Bauhaus building in Dessau today and (inset) as designed when regarded as "anti-German"

from West Germany.

It looked upon certain monuments and historical figures as a part of its working class heritage, and the Bauhaus was given "progressive" status. During the 1960s and 1980s, the regime had taken a very different line, calling the Bauhaus "anti-German" (in blatant Nazi tradition) and anti-working class to boot, while the buildings continued to languish in their disfigured post-1933 condition.

But there are some who say that the Bauhaus after its reopening developed into an institution which the state failed to bring under complete control. This view is shared by Rolf Kuhn, who set up so-called "Walter Gropius Seminars" two years before the collapse of the East German state. These seminars were designed to question the validity of monolithic town planning and repetitive building techniques.

By extension, the new Bau-

haus, while retaining a museum function, has developed the idea of an "experimental academy" intent on the solution of the urban problems of the region, while providing a model on a far wider scale. Utopian ideals mix with hopes of a partial revival of the historical Bauhaus tradition. Environmental re-thinking is now the order of the day.

Project-oriented classes, among them the first architectural design class since the enforced closure of the Bauhaus in 1933, as well as a drama class and an environmental class, have begun to devise schemes to restore and revitalise old quarters of Dessau which have suffered from 50 years of neglect. Ideas to live up to the dream of east German tower blocks are still being explored. No academic qualifications can be obtained, but the Bauhaus experience is seen as an enrichment of an individual's curriculum vitae.

Kuhn is optimistic. He points

to the uncertainties of direction which characterised the Bauhaus during the early years at Weimar. He sees the new Bauhaus as an experiment, in which different disciplines come together to find solutions. Kuhn and others have been remarkably successful in securing government research grants.

The biggest windfall for Bauhaus may come if Kuhn's ambitious plans for a co-operation with the planned Expo 2000 in Hanover are realised. Kuhn has been canvassing a model redevelopment of the Dessau-Bitterfeld region. The Expo organisers have shown interest in including some of his plans.

The Bauhaus wants to revitalise the region, among the most heavily polluted in Europe (blighted by a moribund coal-chemical industry, open-cast coal mining and record levels of unemployment with resulting widespread social deprivation) along envi-

ronmentally conscious lines. Architecture and urban renewal, not least the restoration of many historical working-class housing estates, are seen as a part of this process, together with the development of "soft tourism" which is to reawaken interest in the very considerable landscape assets of the region.

Kuhn has named this project the "industrial garden dominion". To him, this is not a paradox, because Dessau was the centre of landscape improvement as pioneered by the enlightened 18th century Dessau court and of the German industrial revolution at its peak around 1900.

If the Bauhaus of the 1920s served the latter, the new Bauhaus, says Kuhn, has the task of wedding industrial progress and environmental conscience. It remains to be seen if "Bauhaus" can be a meaningful label attached to an institution which has gone through so much fundamental change.

## New End Theatre, Hampstead

## The Provoked Wife

SIR John Vanbrugh (1664-1726) was the architect of Castle Howard and Blenheim. He also wrote a number of plays, of which *The Relapse* with its memorable character of Lord Foppington, previously Sir Novelty Fashion, and *The Provoked Wife* remain the best known.

*The Relapse* was performed first - at Drury Lane in 1696. *The Provoked Wife* was performed next, but may have been written earlier - possibly when the young Vanbrugh was a soldier-prisoner in the Bastille. Nobody is quite sure about the origins of the play.

Anyway, both works are among the best of English drama. *The Provoked Wife* is playing now at the New End Theatre in Hampstead.

As a play, it declines as it goes on, but does so from a very high level. The subject is what to do about an unsatisfactory marriage at a time when

the divorce laws were considerably less flexible than today. Vanbrugh's conclusion seems to be that there is nothing very much that can be done, at least until the law is reformed, but there are nevertheless some wonderful lines and situations along the way.

Sir John Brute (played by John Ashton) confesses at once that anything touched by his wife turns him off.

Lady Brute (Corinna Richards) sacrifices some of the sympathy she might deserve by openly admitting that she married him only for money. Provoked by Sir John's debauchery, she sets off in pursuit of an affair of her own.

There is also a sub-plot. Lady Fancypull, the female equivalent of Lord Foppington in *The Relapse*, believes that she is the greatest beauty in London and is teasingly wooed by the handsome, but poor, Heartfree. "Your vanity, madam," he tells

her, "I take to be about eight degrees higher than any woman's in the town."

Plot and sub-plot, servants and mistresses, all eventually come together as Heartfree falls for Lady Brute's niece, Belinda.

But forget about the structure. *The Provoked Wife* is one of the few English sexual comedies, past or present, where the bulk of the dialogue takes place not between male and female, but instead with men talking to men and women to women.

The best example is Lady Brute talking frankly to Belinda (Caroline Lintott) about how to woo men. There is also Carol Holt's Lady Fancypull talking to her French maid (Adrienne Swan) who replies mainly in French and has a more worldly attitude than the English.

The male discussions are pretty open as well, not least

between Heartfree and Constant (Jon Harris) who has been wooing Lady Brute for two years without success.

The difference between the two of them, Heartfree tells him, is that "I persuade a woman she's an angel; she persuades you she's a one."

Apart from the comedy and farce, there is a serious play trying to get out which must have had an influence on, among others, Oscar Wilde. The writing is fine throughout, almost architecturally so.

The original text was subject to some censorship. In his main drunken scene, when he was taken before the magistrate, Sir John was dressed as a person. A version appeared later with him dressed instead in his wife's gown. This revised version may have removed some clerical satire, but it provides more recognisable humour. The later version is rightly played here, though

neither has a great deal to do with the theme.

At the end, the Brutes come together again, but it remains ambiguous whether they will stay so, or indeed whether Constant will give up his pursuit.

Production is by Tina Marshall and direction by Jonathan Best. The set is almost bare, but the absence of trappings takes nothing away from the play.

Earlier this year, I praised Pirandello's *As You Desire Me* at the same venue. If this standard is maintained, the New End Theatre will be catching up with the Bush and the Gate as small theatres that must be watched.

Malcolm Rutherford

New End Theatre, Hampstead until September 13. (071) 794 0022

## Edinburgh International Festival

## Mark Morris Dance Group

MARK Morris, one of the triumphs of this year's Edinburgh Festival, has moved from the King's Theatre to that inimical barn, the Playhouse, to present a sextuple bill. The move is successful. The dances project well: the audience cheers lustily.

The programme, though it lacks the authority of *Dido and Aeneas*, demonstrates Morris's awesome range. Musical accompaniment, as always with Morris, is of high, high quality - whether with Gareth Jones conducting the Scottish Ensemble and Schola Cantorum or with Linda Dowdell at the piano. Five of the six works have been made in the last fifteen months.

Two of these are jewels - the slow, serene duet *Beautiful Day* and the fast, furious chamber dance *Polka: Beautiful Day* is set to the brief but haunting cantata "Schlage doch, gewünschte Stunde," variously attributed to J.S. Bach or G.M. Hoffmann. Alone together, a man and a woman exist in a spell that is larger than themselves but that includes their own delight in each other. A bell keeps chiming in the music; each time, one dancer "chimes" the other's body.

*Polka* is many things: folk dance, war dance, Dionysiac frenzy, cartoon explosion,

polka. Barefoot, stamping, sitting, slapping, shaking heads and hands, the dancers move in a single ring, in sliding semi-circles, in opposed columns. Their non-stop and full-bodied attack has astounding vehemence; and yet the "Two to the left, two to the right" sequences also add a dash of absurdity. As so often with Morris, something apparently simple is utterly ambiguous. The piece seizes by its command of the music's metre, its pulse, its force, and its incessant energy.

The evening begins with *A Lake*, which Morris made for the White Oak Project, with whom it was seen in London this spring. A pure dance work to Haydn's second horn concerto, it is a happy introduction to Morris's world. Men partner men, people exist as individuals and in the group, gestures and motifs recur with curious emphasis, separate events coincide with masterly harmony. Every bit is admirable, and the simplicity, weight, and fullness of phrase that the Morris dancers bring to it are highly appealing (more so than *White Oak*). I don't, however, "get" it as a structure; or why it is called *A Lake*.

The world of *Bedtime* is now sweet slumber, now tense nightmare. To three Schubert lieder - "Wienlied," "Ständ-

chen" (the "Zögernd leiser" with back-up chorus), and "Erlkönig" handsomely sung by Lorraine Hunt - its imagery hangs between the worlds of waking and dreaming. Children are lulled, impressed, commanded, terrified and betrayed by parents.

The meanings of this riveting piece will surely multiply with further viewings. In *Three Preludes*, Morris himself is alone with Gershwin and in impish mood. His exceptional coordination and rhythmic mastery are evident; so, alas, is his big, heavy bottom.

The programme ends by bringing an "old" masterpiece, *Gloria* (1981, revised 1984), to a British stage for the first time. How did he ever think of setting these anecdotes, this humour to this Vivaldi *Gloria*? This dance shows you the highs and lows of the human spirit in bewildering array. Individuals are disregarded and rejected - but find strength and grace by themselves. Couples and even families fail - but soloists come together. People lose their private selves and discover a larger energy. The mighty shall fall flat; the lame shall dance. How Morris fits this humanist vision so firmly to this music is his secret, and a sure sign of his genius.

Alastair Macaulay

## St. Petersburg Philharmonic

A YEAR ago the Edinburgh Festival was playing host to the leading orchestras and opera companies from the Soviet Union when the world was shaken by the August coup. Stories circulated of musicians refusing to believe the reports in the Scottish evening newspapers until they had seen for themselves pictures of Yeltsin astride a tank or Gorbachev on television returning to Moscow.

Now the Soviet Union is gone and the Leningrad Philharmonic has returned to Usher Hall, Edinburgh as the St. Petersburg Philharmonic Orchestra. This year's festival theme of Tchaikovsky must have made the orchestra's participation almost self-evident. The exhilaration of its performances at the weekend will have shown that the scalding concerts given in the heat of the crisis last year were no isolated high-point.

The playing here was brilliant and full of passion. As with any of the top international orchestras, the St. Petersburg Philharmonic achieves a remarkable clarity of texture and yet its sound is never transparent in a bloodless fashion. The overall pic-

ture is of strong colours, firm outlines, vital rhythms, with every player providing a full complement of red corpuscles. In Tchaikovsky's *Serenade for strings* the sonority of the opening (where Tchaikovsky hit upon the then novel idea of double-stopped chording) pulsated with vibrancy down through every part. The first violin section also deserves a note for its unanimity in the *Elegy*, which could have been the work of one player, exactly in tune, however high the part went, and producing an impassioned singing line.

The Fourth Symphony, announced by a piercing trio of trumpets, was half-raising as a display of orchestral elan and power. Mariss Jansons now exerts an even tighter grip over this symphony than when he last conducted it. London and the sense of music of such fearsome intensity just being held in check by his iron grasp only makes the final pages, when he lets everything rip, the more cataclysmic. These were two unforgettable Tchaikovsky performances, which fully justified the festival's policy of giving the well-known works a hearing too.

The pair of concerts under

Jansons included two other major pieces. On Friday Shostakovich's Fifth Symphony again presented tension screwed to its tightest notch. No slackening of the pace is allowed in Jansons's Shostakovich, no brooding, no letting the attention wander; and this symphony, in which the composer was forced by political blackmail to keep his musical vision blinkered, is the most ideal Jansons material. On Saturday Mikhail Rudy joined the orchestra for a strong account of Rachmaninov's Second Piano Concerto. Where others may allow the famous main theme to drop into spineless lyricism, Jansons set a tough, march-like rhythmic tread in motion underneath and Rudy responded with playing equally firm of purpose, the weighting finely judged, poetry and passion ever just below the surface. After Edinburgh the St. Petersburg Philharmonic moves on to the Proms. It should not be missed.

Richard Fairman

Concerts sponsored by IBM United Kingdom Ltd. and The Royal Bank of Scotland.

## International visual arts venture

THE Arts Council has spent the last few years desperately trying to shed clients, so it is something of an event that it will this week announce a brand new arts venture which will cost nearly £400,000 a year in subsidy once it is up and running.

The Institute of New International Visual Arts, or INIVA, will be an arts centre dedicated to promoting con-

temporary artists from Africa, the Caribbean and Asia. As well as gallery space there will be education, research and publishing facilities.

Already £277,000 has been committed, including £47,000 from the London Arts Board, to develop the idea and to get the creative work underway while the search goes on for the disused factory, or empty warehouse, or even purpose

built structure, which will be home to INIVA.

Originally Kings Cross was the favoured location but now the Arts Council is talking to Lambeth, and Kensington and Chelsea Councils, both of which have received City Challenge money from the Government. A local authority will ideally supply the building while the Arts Council meets the running costs.



## FESTIVALS

## BAYREUTH

The final week of this year's festival sees the last-ever performances of the Kupfer-Barenboim Ring, first staged in 1988. Siegfried today, followed by *Götterdämmerung* on Wed. Der Ringende Holländer will be performed on Thurs, and the festival ends with *Tannhäuser* on Fri.

Next year, there will be a new production of *Tristan und Isolde* with Siegfried Jerusalem and Waltraud Meier. The next Ring performances will be in 1994. (921) 20221

## EDINBURGH

Drama: two plays in the C P Taylor retrospective can be seen this week. *The Black and White Minstrels* - a study of the moral, political and sexual double-standards of the modern liberal - opens tonight at Church Hill Theatre. *Operation Elvis* the story of a ten-year old boy obsessed with Elvis Presley -

opens tomorrow in the Corn Exchange.

There are also two Harley Granville Barker plays: *The Madras House* (1910), described as a serious comedy with an unusually strong feminist theme for its period, can be seen at the Lyceum in a production by the Lyric, Hampstead.

Tomorrow at St Bride's Centre, Orange Tree Theatre of Richmond gives the world premiere of *His Majesty*, published in 1928 but never previously staged.

The National Theatre's acclaimed production of *Lope de Vega's Fuente Ovejuna*, about a small town's revolt against a brutal overlord, is showing at the Assembly Hall.

Opera and ballet: Mark Morris Dance Group gives a final performance tonight in the Playhouse.

Claudio Desderi and Elisabeth Söderström star in tonight's double bill of *Cimarra* and *Poulenc* at the King's Theatre. Opera North's Tchaikovsky double bill - *Yolanta* and *The Nutcracker* - opens at the King's on Wed.

Concerts: Franz Weiser-Möst conducts the LPO in a Bruckner programme tonight at the Usher Hall. Klaus Tennstedt conducts Beethoven and Strauss tomorrow.

Donald Runnicles conducts the Scottish Chamber Orchestra on Wed, with Isabelle Vernet soloist in Berlioz's *Les Nuits d'Été*.

Paul Daniel conducts the English National Philharmonia in Tchaikovsky on Thurs, followed by the Royal Scottish Orchestra's Hamlet programme under Rozhdvestvensky on Fri. Sat: 18th century Scottish music. Sun: Neeme Järvi conducts the RSO.

Recitals: the morning series at Queen's Hall features Peter Donohoe today, Isabelle Vernet in a programme French songs tomorrow, Uwe Hellmann singing Schubert on Wed and the Barokk String Quartet on Thurs and Fri.

● The official festival runs till Sep 5: telephone bookings (31) 225 5756, 24-hour information service within UK 0891-600 304. The Military Tattoo ends on Sat (31) 225 1188. Festival Fringe: (31) 226 5257

## GSTAAD

The Alpenglora programme includes concerts by the Zurich Chamber Orchestra tonight and tomorrow, followed by visits from two London orchestras - the Royal Philharmonic conducted by Yehudi Menuhin (Fri and Sat) and the London Symphony conducted by Michael Tilson Thomas (Sep 11 and 12).

Bruno Leonardo-Gelber gives a piano recital on Sep 1, and there is a concert performance of *La traviata* on Sep 5. Ends Sep 12. (30) 47173

## LUCERNE

Yuri Bashmet and Anne Sophie Mutter join the Collegium

Musical Zurich for a performance of Mozart's Sinfonia Concertante K364 tonight at the Lion Monument.

Riccardo Chailly brings the Royal Concertgebouw Orchestra to the Kunsthhaus tomorrow and Wed, followed by a Pollini recital on Thurs. Fri and Sat: Sinopoli conducts the Dresden Staatskapelle.

Sun: Claudio Abbado conducts the Berlin Philharmonic in a gala concert in aid of Lucerne's planned new concert hall.

Next Mon: Abbado conducts a second BPO concert, and next Tues he presents the prizes to winners of the street music competition, one of the innovations at this year's festival. Later in the festival, there are concerts by the Scottish Chamber Orchestra, the St Petersburg Philharmonic and the Orchestre National de France. Ends Sep 9. (41) 235272

## SALZBURG

The final week of the festival includes something for everybody. Lovers of no-nonsense opera productions can opt for *Le nozze di Figaro* (tomorrow and Sat) or *Die Frau ohne Schatten* (Wed) in the Grosses Festspielhaus. The Mozart is conducted by Haitink and the Strauss by Solti.

Opera performances with the more adventurous stamp of Gerard Mortier's new regime include Luc Bondy's production of *Salome* in the Kleines Festspielhaus (Thurs and Sun), Peter Sellars' staging of

Messiaen in the Felsenreitschule (tomorrow and Fri) and the Hermanns staging of *La finta giardiniera* at the Landestheater, starring Anna Sofie von Otter (tonight, Wed, Fri and Sun).

Recitals at the Mozarteum include Nicolai Ghiaurov (thurs) and Cheryl Studer (Sun). Frans Brüggen conducts three Mozart masterpieces at the end of the week, and there are solo recitals by Yo Yo Ma (tonight) and Alfred Brendel (Sun).

Pierre Boulez conducts the Los Angeles Philharmonic tonight and the Vienna Philharmonic on Sun morning. Claudio Abbado conducts the Berlin Philharmonic on Thurs and Fri. There is a final performance of Jedermann in the Domplatz on Sun. (662) 846682

## SAN SEBASTIAN

The programme for the final week includes concerts by the Prague Chamber Orchestra with Josef Suk (tonight), the Bilbao Symphony Orchestra conducted by Lionel Friend (tomorrow) and the Frankfurt Radio Symphony Orchestra (Sat and Sun).

There will be an evening of basque dances on Wed and a piano recital by Christian Zacharias on Fri. (43) 481238

## STRESA

Martha Argerich and Alexandre Rabinovich give a recital for two pianos tonight. Peter Maag conducts an orchestral concert tomorrow, and the Cleveland Quartet gives a recital on Sat. Shlomo Mintz directs the Israel

Chamber Orchestra in a concert on Sun. Next week's recitals include Alexis Weissenberg. Ends Sep 17. (323) 31095

● TANGLEWOOD The final week of this year's programme is devoted to popular artists: James Taylor tonight, Ray Charles and the Modern Jazz Quartet on Fri, Mel Tormé and Maureen McGovern on Sat and Wynton Marsalis and the Dave Brubeck Quartet on Sun. Ticketmaster Boston (617) 931 2000 New York City (212) 3077171

## TURIN

Settembre Musica opens on Sat with Rossini's *Il barbiere di Siviglia* conducted by Paolo Carignani. There are concerts by the St Petersburg Philharmonic on Sep 1 and the Beaux Arts Trio on Sep 4. Mariella Devia gives a Rossini song recital on Sep 7, and Franz Weiser-Möst conducts the Hague Philharmonic on Sep 8 and 9. Other visitors to the festival include Maria Joao Pires, Vladimir Ashkenazy and the Royal Concertgebouw Orchestra. Ends Sep 19. (11) 576 5564

## VERONA

Lorin Maazel conducts tonight's concert performance of *Porgy and Bess*, Tomorrow and Fri: *Aida*. Wed and Sun: *La bohème*. Thurs: *Nabucco*. Sat: *Don Carlo*. This is the final week of this summer's Arena performances. (45) 590109

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## FINANCIAL TIMES

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Monday August 24 1992

## Policy choice for US voters

RHETORICALLY, the choice of economic policies being offered to American voters looks familiar. The economy needs a stimulus: the Republicans offer tax cuts, the Democrats a large programme of public investment. Mr Bush looks back to President Reagan, Mr Clinton to President Roosevelt; or to put it in oppositional terms, Mr Bush wants to make the rich richer, Mr Clinton to tax and spend.

The reality is totally different. Both programmes are based on unrealistic arithmetic; more important, the president's proposals have no chance of being put into action, short of a wildly improbable upset in the Congressional elections. The real choice is whether to continue with the contest which has kept the president and the legislature deadlocked for the last four years, or to take the risk of an active, interventionist president with Congressional backing – an activist who will have to learn on the job.

Despite the clear disillusion of voters, there is something to be said for the deadlock they have so far chosen to perpetuate. Mr Bush inherited an appalling mess – not only a huge Federal deficit, but a largely bankrupt financial system. Keynesians might argue that it is only the deficit which has prevented large-scale private default from pushing the US economy into a slump. In any case, the largely unintended Bush strategy of tackling financial reform with energy, but leaving the deficit on the back burner, has worked out quite well.

### Signs of recovery

The economy still looks flat, but thanks largely to the Federal Reserve and a floating exchange rate, it is in fact recovering. Slow export-led growth should continue were the president to win re-election, though as the Organisation for Economic Co-operation and Development has forecast, there is unlikely to be much acceleration. It is not an inspiring prospect, but the president's friend Mr John Major would settle for it. The president's domestic frustrations have also had a welcome result. They have driven Mr Bush into concentrating on what he knows best, the international scene. Some of the results – continued G7 co-operation (low-level,

but better than squabbling), the Brady debt relief plan, and most promising the North American Free Trade Area – have been bright features in a dark scene. If Mr Bush could give Mexicans a vote, he would win in a landslide. At the same time it must be said that the president's domestic proposals are ill-considered, unimaginative, and unworkable even if they were desirable. His hurriedly promised tax cuts, a concession to his right wing, rely on capping spending on entitlement programmes such as government health care programmes. His opponents must wish that anyone believed this to be a serious proposal, for it would guarantee them the votes of nearly everyone over 50. But in fact it is simply an attempt to avoid the deficit. For the rest, the deficit would be limited by what Mr Herbert Stein, a Republican economist, once described as President Reagan's one important fiscal innovation, the asterisk – used in Reagan budgets to mark spending cuts yet to be identified.

### Clinton's plan

Mr Clinton's proposals are more carefully considered, and serve desirable ends – an improved infrastructure, better education, welfare conditional on willingness to work, and investment incentives for the private sector. The package would also, according to some Wall Street analysts, give a strong boost to activity. However, outsiders must wish that the Republican hawk, tax and spend, were more accurate.

The spending proposals are clear, but the tax proposals do not match them, as a distinguished Democrat economist, Ms Alice Rivlin, has pointed out. Some are also objectionable, notably the usual demagogic promise to tax foreign corporations more heavily, and this is a suggestive mistake, as is the heavy reliance on defence cuts. There is a disturbing streak of isolationism and protectionism in the Democratic party, both among grassroots supporters and such senior figures as the House majority leader, Mr Richard Gephardt. Mr Clinton is an intelligent and pragmatic figure, and may resist these pressures; but if he wins the voters' support, he must expect a wary welcome in the outside world.

## For richer, for poorer

IN THE three weeks since Imperial Chemical Industries announced its proposal to divide itself in two, outside opinion has divided itself with equal neatness. For its admirers, the plan is a radical example of long-term industrial strategy. For its critics, it is a transparent piece of financial engineering. Doubtless, the plan contains elements of both. On balance, ICI perhaps deserves the benefit of the doubt.

The critics' case is simply put. Historically, ICI has lived within its means, rather than seeking cash from its shareholders. For whatever reason, this has now changed. The company proposes to raise new equity, reputedly in excess of £1bn. But ICI has for decades been bedevilled by a low stock market rating, chiefly because of the cyclical nature of its bulk chemicals business. Raising equity capital is thus expensive and inefficient. Drug companies, on the other hand, enjoy high stock market ratings. The answer is to split off ICI's drug business, load it with all the group's debt and use its higher stock market rating to repay the debt cheaply.

### Conservative culture

While this doubtless adds to the plan's appeal, it is unlikely to be the main motive. To begin with, it would be out of character. ICI is a company which commands respect in many ways. Few of them are financial. The company's culture is characteristic of its industry: conservative, inward-looking and preoccupied by technology and markets rather than short-run financial advantage.

It is in this context that the radical nature of the demerger must be understood. ICI, like many of its US and European rivals, represents the classic model of the giant chemical concern. Starting a century ago, the model progressed from basic alkalis and dyestuffs to absorb successive technologies such as plastics, agrochemicals and pharmaceuticals. Some of ICI's rivals have lately shed related businesses – Union Carbide, its industrial gases; Monsanto, its process controls. None has taken the basic model, and carved it down the middle.

One obvious question is why not. Other chemical companies

might reply that the various parts of their business employ common research and technology. ICI would reply that this is only partly true. Various biological and genetic techniques apply across the fields of pharmaceuticals, seeds and agrochemicals. They will be duly grouped together. There are links between inorganic chemicals and polymers and between paints and explosives, which will form the other group. Between the two groups there is little in common.

The same argument could be reversed: that no single individual in ICI fully understands the business as a whole, from the genetic engineering of plant seeds at one extreme, to the operation of giant ethylene crackers at the other. ICI is in that sense a diversified conglomerate. Hanson or BTR could doubtless run it after a fashion. ICI's own managers may lack the necessary skills. If so, the burden of proof lies the other way: if ICI is too big to handle, why should it stay in one piece?

### Exposure to the cycle

One traditional answer would be that the different parts of the business provide stability through the economic cycle. Bulk chemicals go from boom to bust and back again. Agrochemicals work on a cycle of their own. Pharmaceuticals have no perceptible cycle at all. Although this is in fact a fair description of what has happened within ICI over the past 20 years, it may not be relevant. Other industries – paper and pulp, for instance – expose themselves fully to the vagaries of the cycle. The element of stability is provided by the capital markets and the banking system.

It may not be a coincidence that the two clearest examples of outright demerger in the UK over the past decade – Bowater and Courtauld – have proved successful. Bowater US remains a large paper company, while Bowater UK is a significant force in packaging. Courtaulds Textiles has held its own, while the remainder is a successful chemicals company. Perhaps there really is something liberating about allowing managers to concentrate on a business which they can comprehend. In ICI's case, it at least seems worth a try.

The threat of war in the Middle East will again dominate Washington's foreign policy agenda this week, pushing into the background negotiations that could lead to a breakthrough in the seemingly intractable conflict between Israel and its Arab neighbours. For President George Bush, fresh from launching his re-election campaign in Houston, it is a dual opportunity to prove to a sceptical electorate that his qualities of international leadership more than offset the doubts about his handling of an ailing economy.

The issue of war is again dictated by President Saddam Hussein of Iraq and the unfinished aspects of the Gulf war. Last week in Houston Mr Bush claimed credit for the collapse of communism and the Soviet empire, the reunification of Germany, the staging of Middle East peace talks, and even the improvement in race relations in South Africa. But his supposedly greatest personal triumph, the victory over Iraq in the Gulf War, is beginning to turn electorally sour.

President Saddam Hussein, probably with an eye on Mr Bush's re-election campaign, has chosen this time to intensify his defiance of the conditions imposed on him by UN Security Council resolutions at the end of the war. He will not allow UN inspectors to visit ministries in search of evidence relating to weapons of mass destruction; he has denied visas to other UN staff overseeing aid efforts; and most frightening of all, he is said to be preparing his army for another large-scale assault on the Shia population in the south.

It is not a challenge that Mr Bush can ignore and, unlike the disaster of Bosnia-Herzegovina, it is not one that can so easily be evaded by references to "quagmires" and Vietnam. Together with Britain and France, the US has responded by planning an air security zone at the 32nd parallel below which Saddam's aircraft will be forbidden to fly.

The details are expected to be announced tomorrow. It is aimed at delivering a further blow to the prestige of the Iraqi leader and to offer limited protection to people in the south, particularly in the marshes north of Basra, where the Iraqi army finds it difficult to deploy armour and heavy artillery. But it is also likely to prove an open-ended allied commitment to protect the people of southern Iraq who number more than 50 per cent of the population. With protection already being given to the Kurds north of the 36th parallel, it brings closer the division of Iraq into three distinct parts and the eventual involvement of the allies in the country's political reorganisation.

Baghdad is unlikely to challenge the air ban, but if it continues to pursue the Shia, the allies will have to decide if they are prepared to attack Saddam's forces on the ground, increasing the risk of full-scale hostilities against Baghdad.

An extended conflict brings wider regional repercussions. Opponents of superpower involvement in the Gulf, such as Iran, have already warned the US to stay away from Iraq, while Jordan and Syria, two of the participants in this week's Arab-Israeli negotiations in Washington, have also objected to the air exclusion zone.

Jordan and Syria will this week be attempting to gauge, along with the Palestinians and Lebanon, just how much the peace process launched last October in Madrid can be advanced following the June elections in Israel and the extent to

Iraq's intransigence and Arab-Israeli talks provide opportunities for President Bush, say Roger Matthews and Tony Walker

## Peace hopes and war fears



which the US remains committed to its success.

The more pragmatic approach of Mr Yitzhak Rabin, Israel's new Labour prime minister, to the demands of the Palestinians living under occupation since 1967 contrasts sharply with that of his predecessor Mr Yitzhak Shamir. In the wake of defeat, Mr Shamir admitted his aim had been to negotiate for 10 years if necessary, during which time so many Jews would have been settled in the West Bank and Gaza that the territories would become irreversibly part of Israel.

It was that determination to continue building settlements, considered by the international community to be the highest obstacle to peace, which made the US deny Israel the \$10bn in loan guarantees it was seeking to absorb new immigrants. The Labour government said from the outset that it was prepared to freeze most new settlement building not required for security – although it will complete more than 10,000 apartments under construction – and wanted to negotiate within nine months a form of autonomy for the Palestinians. On the basis of that encouraging statement, Mr Rabin was welcomed to the US earlier this month and returned home triumphantly with the promise of the \$10bn in loan guarantees.

American unwillingness to insist on a total ban on new settlements

caused no more than a temporary hesitation among the four Arab delegations about travelling to Washington. They complained about US tilt towards Israel, hoped that it would resume an "honest broker" role, but tacitly acknowledged that proposals could emerge in Washington which will interest them.

Mr Rabin would probably like to press ahead more quickly in negotiations with the Palestinians than with Syria, but has been told by the US that it would be "unhelpful" if the parallel discussions did not proceed roughly in tandem. Israeli observers say that in spite of the improved negotiating climate, Mr Rabin will prove especially tough on all security issues. They note that he has retained Mr Elyakim Rubinstein as the chief negotiator with the Palestinians, a decision designed to undermine his security concerns.

But Mr Rubinstein's reappearance has been balanced by the selection of Professor Itamar Rabinovich, an expert on Syria and a pragmatist, to lead the team negotiating with Damascus.

Arab negotiators like to emphasise that UN resolutions lie as much at the heart of their negotiations as they do in the conflict between Iraq and the western allies. In the case of the Arab-Israeli conflict, it is res-

olutions 242 and 338, passed after the 1967 and 1973 Middle East wars, which call for the return of territories occupied by Israel and assert the inadmissibility of the acquisition of land by force. For Syria that means regaining control of the Golan Heights and for the Palestinians it means achieving self-determination in the West Bank and the Gaza Strip.

"Let's see now if the US will be as keen on UN resolutions affecting Israel as it is on enforcing those on Iraq," an Arab diplomat commented.

The core of the Israeli-Palestinian talks for the next month will be on an interim self-governing authority in the West Bank and Gaza to administer the territory for five years. During the final two years, negotiations will be held on the precise borders and status of the territories. The Palestinians tabled their concept of the Palestinian Interim Self-Governing Authority (Pisga) in Washington on March 3. It is the embryo of an independent state.

"The success of the transitional process is only possible if the Pisga is vested with all the powers of a true self-governing authority," asserts the Palestinian document.

The Palestinians will press for elections to a 180-member legislature, together with a 20-member executive council and a judiciary. Israeli officials, hunkering at anything which hints at a Palestinian

state, said recently that a much smaller "self-governing authority" would be sufficient.

Mr Faisal Hussein, the leading Palestinian in the territories, argues that the numbers issue is not so important. "What we want to ensure is that the source of authority is a Palestinian one, that the source of legitimacy is a Palestinian one... It is not the numbers; it is the principle."

In one important respect the assumptions underlying discussions on elections will be very different following the change of Israeli government. Whereas Mr Shamir was at best offering municipal elections covering about 30 per cent of the population of the West Bank and Gaza, Mr Rabin is talking about a poll encompassing all the territories with their population of about 1.7m.

The Palestinians, in their preparations for Washington, have formed no fewer than 37 committees to plan for the transfer of authority over such functions as health, education and social welfare.

The Camp David accords negotiated between the US, Israel and Egypt in 1978 and revived at the time by the Palestine Liberation Organisation and almost all Arab governments, provide the fullest offer made by Israel for Palestinian autonomy and accepted the legitimate rights of the Palestinian people and their just requirements. But in the nearly 14 years since then, the number of Jewish settlers in the territories has increased to 110,000, and the Palestinian uprising, which started in 1988, has intensified the bitterness on both sides.

The suggested 20,000-strong, locally recruited Palestinian police force, operating areas vacated by the Israeli military as envisaged in Camp David, would be sure to be resented by militant Jewish settlers whose future must seem less secure in the wake of Mr Rabin's electoral victory.

Syria, robbed of the security umbrella and assured arms supplies provided by the former Soviet Union, may prove marginally more flexible in its demands for the unqualified return of the Golan Heights. Mr Rabin is said to be willing to discuss shared sovereignty and US troops being stationed on the Heights. But in return Israel would insist on a full peace, a prospect that many Israelis suspect would be too much for President Hafez al-Assad to accept.

Few of the parties to the conflict doubt, however, that for negotiations to have reached this stage, a massive diplomatic effort was required by the US and in particular by Mr James Baker. And therein lies the main reason for continued caution about the prospects for real progress. Mr Baker, who yesterday took over as White House chief of staff, is now far more concerned about the uphill task of getting Mr Bush re-elected than with monitoring the peace talks.

Mr Lawrence Eagleburger, his acting successor at the State Department, is unlikely to be able to devote the same time or energy to the issue. And all the time, forcing himself on American public attention is the man Republican party leaders refer to as the "Baghdad bully". They know that in the next 10 weeks he can damage the president's electoral chances far more than peace talks can boost them. Deep in his Baghdad bunker, President Saddam Hussein may not fully appreciate just how much Mr Bush wants his political scalp.

## Georgia's statesman gets tough at home

The republic's age-old conflicts are testing the patience of Eduard Shevardnadze, writes Steve Levine

Eduard Shevardnadze, whom westerners have long regarded as a conciliatory statesman, has once again proven that he also knows the nastier side of politics. This is not surprising. The 64-year-old former Soviet foreign minister, who proved throughout his career that a realist, learned the political ropes as Communist party boss of the former Soviet republic of Georgia.

That is the reason, his supporters say, Mr Shevardnadze, a key member of Georgia's current ruling presidium, sent in the tanks last week to crush separatist Abkhazians after they kidnapped 12 of his senior officials.

"There was no way out," says Mrs Irina Sarishevili, a Georgia State Council member who backs Mr Shevardnadze. "The ministers were hostage. If we didn't send them [the tanks] in, the people would think 'what kind of people are you?'"

The question now is whether Mr Shevardnadze, who contributed greatly to the remoulding of the old Soviet Union, can now make the birthplace of Mr Josef Stalin look squarely at its own internal problems and change. Despite Mr Shevardnadze's enormous international prestige, the challenges are great.

In this task, the picturesque nation of 4.4m people, mythologised by the Greeks, has already chosen to go it alone. It is the only former Soviet republic outside the Baltic region not to join the Commonwealth of Independent States.

In addition to securing the dangerous streets of Tbilisi, the capital, and bringing home troops from the separatist regions of South Ossetia and Abkhazia, Mr Shevardnadze must rebuild an imploding economy. Georgia's output fell by a

quarter last year, after dropping 5 per cent in 1989 and 12 per cent in 1990, and the International Monetary Fund predicts that this year will probably be worse.

The key to economic improvement, analysts say, will be the outcome of the October 11 elections for the republic's new parliament, which will replace the unelected State Council. Assuming that Mr Shevardnadze retains a leadership role, say his admirers, the silver-haired politician will enjoy an undisputed mandate. Whether the country is to be led by a prime minister or president has yet to be decided, and so Mr Shevardnadze's role after the elections remains unclear.

### The key to economic improvement will be the outcome of the October 11 elections for a new parliament

At it stands, Mr Shevardnadze is just one of four members of the State Council Ruling Presidium, where his pragmatism collides directly with the militarism of the defence minister, Mr Tengiz Kitovani. Mr Kitovani's detractors say he has exacerbated that violence that has debilitated Georgia since January, when President Zviad Gamsakhurdia was deposed in a revolt by his former allies.

"The minister of defence has great influence. He has the army under his control. This influences the situation all over Georgia, because the army is the strength in the country," says Mr Iyvan Haindrava, a State Council member and leader of the Georgian Republican

party. "We hope that the parliamentary elections will somehow change the situation, and I think they will."

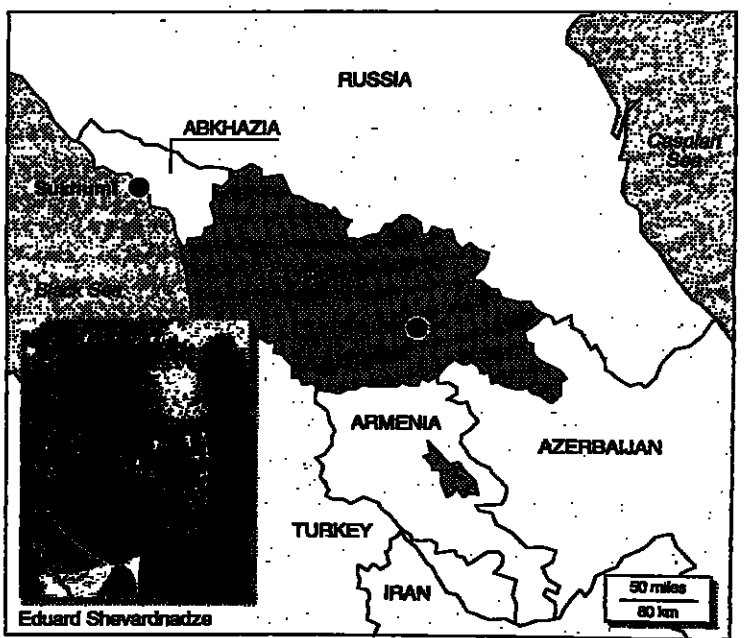
There is a lot to overcome. The first is the region's history. The last eight months have shown that Georgians, as with their brethren throughout the former Caucasus Mountains, are quick to resort to violence to settle political disputes – a characteristic, historians say, that is almost unbroken in time.

Indeed, throughout the region Caucasians are fighting obscure wars. The most prominent pits Armenians against Azerbaijanis in the enclave of Nagorno-Karabakh. But there has also been violence in the autonomous region of Dagestan, Chechnya, Nakhichevan and north Ossetia. In addition to south Ossetian and Abkhazian battles with Georgia.

East and west Georgians have fought since at least the ninth century and, after Mr Gamsakhurdia fled, they enthusiastically resumed a war that had been interrupted only by the 70-year Soviet rule.

The Abkhazian conflict is a good example of the age-old disputes that have festered in the region. The Georgian claim to the mountainous, seaside region goes back to the fourth century BC, when Georgia was populated by the Kolch tribe in the west and the Iberian in the east. Abkhazian tribes arrived only 600 years later. Soviet historians say – showing that Georgians are legitimate heirs to the disputed western territory, not the Abkhazians, whom the Czars and Soviets granted autonomy. The Georgians note that west Georgians now comprise 45 per cent of Abkhazia's population, and Abkhazians just 15 per cent.

The Abkhazians, of course, have their own reading of history, arguing that they comprise merely 100 per cent of the population a century ago, but that Mr Stalin changed the demographics by moving in his native west Georgians.



their own reading of history, arguing that they comprise merely 100 per cent of the population a century ago, but that Mr Stalin changed the demographics by moving in his native west Georgians.

Even his biggest supporters concede that Mr Shevardnadze had to expect complications if he sent troops into Abkhazia, where, among other complaints, he said that bandits were robbing cargo trains and lorries headed south. It was the pragmatic Mr Shevardnadze, not the better-known conciliatory one, who acted when Abkhazian leader Vladislav Ardzinba declared independence, and Georgian interior minister Roman Zvenadzadze and 11 others were abducted.

Announcing that the army would secure Abkhazia's railways and port against bandits, Mr Shevardnadze said nothing when Mr Kitovani proceeded to seize the local capital outright despite resistance by Mr Ardzinba's supporters.

It was the pragmatic side of Mr Shevardnadze which also surfaced in January, when Georgians deposed Mr Gamsakhurdia at the point of an artillery barrel. In explaining the coup, the former foreign minister said straight-faced: "It

was not so much a violent takeover as a conflict between an authoritarian regime and democratic forces which were supported by armed formations."

Many Abkhazians don't consider Mr Shevardnadze a great conciliator, and journalists who have seen Mr Ardzinba in his stronghold of Gagra say he is digging in for a long fight. "This land has been ours since 1961, but the Georgians still think it's theirs," says Mrs Patrulya Karibaya, an Abkhaz woman who was hiding in her Sukhumi home last week as Georgian troops patrolled the streets.

Mr Shevardnadze, the realist has been heard to say he has never had a tougher job. Indeed, supporters believe he may even be forced to retain Mr Kitovani as defence minister to avoid even worse upheaval in the future. Few expect a stable Georgia soon.

"Georgia has no tradition of democracy, and no control over its military forces. You can't expect us to become a highly developed, democratic country in just two or three years," says Mr Haindrava, the Republican Party leader. "We must change our mentality. We need time."



# Town Hall 2: just when you thought it was safe...

The new council tax threatens to worry taxpayers and their MPs almost as much as the poll tax, writes John Willman

Like the blood-dripping alien which returns periodically from apparent death to terrify filmgoers, local government taxation is threatening to rise again as a political issue. The government may have believed that it had killed off the monster of the poll tax, which threatened electoral defeat and helped to topple Mrs Margaret Thatcher. But with just over seven months until its final interment, terror stalks the Tory heartlands as the familiar features of the council tax come into focus.

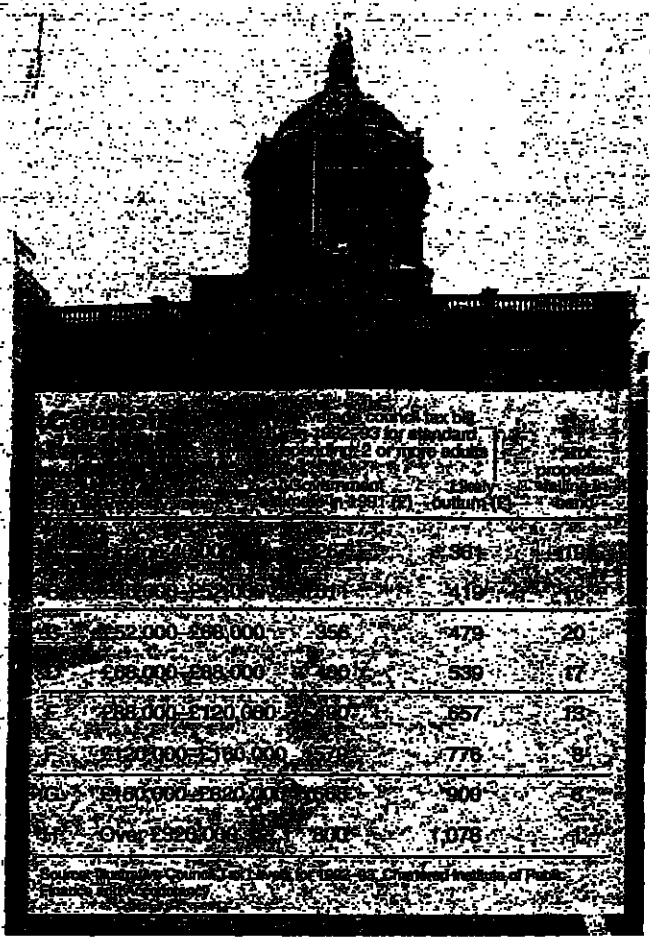
Last week, Sir Rhodes Boyson, the former local government minister, warned that the government was climbing "out of one treacherous well into another" in its reform of local taxation. Bumbling on the backbenches can be expected to grow in the run-up to the Conservative party conference in October, particularly from MPs in southern constituencies which are expected to do badly from the changeover.

Some of the alarm is misconceived - partly encouraged by the complex structure of the council tax, which was carefully designed to stop profligate councils from milking wealthier property-owners in the way that some did under the old rating system. Homes will be allocated to one of eight valuation bands, according to their capital value on April 1, 1991. The tax to be levied on property in the top band will be three times that on the bottom band to avoid swinging imposts on the well-to-do.

One consequence of this banding is a sizeable tax increase for a home which just creeps into a higher tax band. As the figures prepared by the Chartered Institute of Public Finance and Accountancy (Cipfa) show, a home worth about £120,000 is likely to face an average tax bill of £267 if it is in band E, £776 in band F. The differences in some local authorities will be much higher than these average figures. Cipfa estimates, for example, that the step up could be more than £150 in the highest tax councils.

Experts in local government finance have been warning for some time that such jumps in bills between bands will make the valuation process much more controversial than under the old rating system, where there was a smooth progression in values and tax bills. The government, which originally hoped to avoid a cumbersome appeals process, has now conceded one, recognising that it will be essential if the tax is to be seen as fair.

(However, taxpayers' evalua-



tion of the fairness of the council tax is likely to be influenced by the fall in house prices in many parts of the country. The first that most will know about their council tax bill will be in March 1993, when they receive a bill from their local authority based on the value of their home two years earlier. If the value of their home has fallen in that period, it may be difficult to convince them that they have been correctly assessed, especially if a more up-to-date valuation would put them in a lower band.

The government is already

the Local Government Information Unit, for example, appeared to demonstrate that the government had overestimated the value of property in its original calculations. The conclusion drawn was that the average tax bill would be £51 higher than predicted.

The inference, however, is groundless. The average council tax bill in any local authority will not depend on the value of the property within it, but on the amount the council must raise from local taxpayers to finance its spending. That bill must be divided

bands than expected.

The misunderstandings revealed by some of the early scare stories reflect the difficulties involved in explaining the workings of a property-based tax - difficulties familiar to those who remember the unpopularity of the rates. Indeed, it was the belief that the revaluation of properties in Scotland would of itself mean higher rates bills which eventually scuppered the rates and led to the premature introduction of the poll tax.

There are equally worrying similarities between the funding problems now faced by the government in introducing the council tax, and those that dogged the launch of the poll tax. It was, after all, Treasury parsonage on the poll tax - which Mr Nigel Lawson, the chancellor, had strongly opposed - that denied it sufficient funds to ensure that winners outnumbered losers.

Cipfa estimates that at least an extra £2.5bn will be needed to keep average tax levels down to the figures the government estimated in its 1991 white paper on the council tax. In the absence of additional funding, the average figures for the first year of the council tax will be 35 per cent higher than the government's targets.

There will also be considerable variations between regions within the overall average figures unless there is some transitional arrangement to even out the burden. Local taxpayers who have been told that the average council tax bill in England is to be £400 may be surprised to find that the average in inner London will be £714 and more than £800 throughout the south-east.

Mr Michael Howard, the environment secretary, is said to be pressing for a generous settlement in this autumn's spending round. Even if the Treasury was prepared to be generous in the introduction of the council tax, however, the economic circumstances make it unlikely that the support needed to guarantee a painless transition will be forthcoming.

The result will be that the scare stories based on misunderstandings will begin to give way to worries about the level of the new tax in the run-up to its April introduction. The council tax is likely to enter the world in unpropitious circumstances, with its valuations undermined by falling house prices, inadequate understanding of its workings and insufficient funds to ease the pain. It is not a pleasant prospect for ministers who felt that they had vanquished the alien beast of local government taxation in the final reel of the poll-tax saga.

**If there are fewer houses than expected in the highest bands, the levels will need to be higher in every band**

redrafting parts of the official notice that will be sent out with tax bills to make it clear that valuations are based on 1991 values. But the legitimacy of the new tax may be undermined if it fails to get across the message that, if one house in an area has dropped in value since 1991, the others will be in a similar position.

More misleading has been the spate of press stories suggesting that such valuation problems will mean higher council tax bills for everyone. Figures produced last week by

among the taxpayers, whatever the property values, and the average will not be affected by changes in valuations.

What may change is the distribution of the tax bill across the tax bands. If there are fewer houses than expected in the highest bands, the council tax level will need to be higher in every band to raise the same amount of money. With reports suggesting that this is the case, tax bills for each band may work out higher than the government had forecast, but with more households in the lower

## OBSERVER

### Wilhelm joins the ANC volk

Most white South Africans are deeply disillusioned with the African National Congress these days. Hence it is rare to find a white man signing up as an ANC member, and doubly so if his name is Verwoerd.

Dr Hendrik Verwoerd, the architect of apartheid, must be squirming in his grave to learn that grandson Wilhelm, 30, has joined the ANC. Wilhelm, who has a theology degree, had a political "awakening" when attending Oxford as a Rhodes scholar, according to his wife, Melanie, who is also an ANC member.

Within the Verwoerd family, his behaviour appears even more out of character: his father, Professor Wilhelm Verwoerd, Dr Hendrik Verwoerd's eldest son, is a member of the ultra-right Conservative Party. His aunt and his grandmother, have moved to Orania, a whites-only village in the remote northern Cape where blacks are excluded, even as labourers. It was established by Verwoerd's son-in-law, Prof Carel Boshoff.

But the family is not just split between left and right: Hendrik Verwoerd, Jr, another Verwoerd son, has set up a rival white homeland at Morgenzon in the Transvaal. He and son-in-law Boshoff agree that they want to live without blacks, but Verwoerd, Jr claims the entire industrial heartland of South Africa as his territory, while Boshoff is content to live in dusty isolation in the Cape.

### Suspicious

Having difficulty finding a room in the Inn? Earlier this month Observer passed on the Welsh Tourist Board's advice

on why Japanese don't like room 44. A well-travelled colleague noted that this was only a fraction of the story.

It's not just a Japanese problem, but a Chinese one too, and the Chinese seem to take things a whole lot further: the hotel floors 4 and 44 are often omitted: telephone numbers with lots of "4"s in them can be a blight on a company.

On the brighter side, numbers 8 and 9 are greatly sought after, apparently bringing immense good luck - the Chinese for 8 rhymes with the word for "rich", and the word for 9 sounds like the word for "long life". In auctions for car registration numbers in Hong Kong, numbers 8 and 9 regularly attract immense premiums.

Steering well clear of certain numbers seems to be by no means a Chinese or Japanese fixation: a well-known Sultan, for example, has had the number of his London pad changed from 13 to 12½. Meanwhile, another colleague reports that some Pakistanis don't like room 420. It is often under-utilised because the number is said to be a code for describing crooks and swindlers.

If you have any other similar travel tips, a superstitious Observer would like to hear them.

### Happy days

How time flies. Russia's Central Bank is issuing 1m three-ruble coins commemorating the democratic victory over Communist hard-liners who launched last year's abortive coup.

Three rubles, which is less than three cents at the current exchange rate, can buy little these days in Russia: six rides on the Moscow subway or a newspaper. Before the coup,



"Let's phone someone and say we want to buy their house"

three roubles could buy 60 subway rides, or a hearty lunch in a state-subsidized cafeteria.

### Discounted

Arranging your own pension plan might be all the rage at the moment, in the wake of Captain Bob Maxwell's pension fund raids, but the Which? guide, Choose your own Pension, has not proved a best seller. Copies of the £7.95 book have been knocked down to just £1 at a Fleet Street bookseller.

### Thirst-quenching

How well did the Daily Mirror do from its biggest scoop in a decade? The publication of the photos of the errant Duchess comes at a time when the long-running battle between The Sun and the Daily Mirror for the title of Britain's biggest selling daily is at a crucial stage. In 1991 the Daily Mirror regained the number one spot, but The Sun has been narrowing its lead lately. Last

month the Mirror raised its cover price by 2p, making it more expensive than The Sun, and the latter has been merciless in highlighting the price differential. Referring to the Mirror's former owner, the late Robert Maxwell, The Sun has been taunting the opposition with jibes such as "what the Mirror coffers lack its readers are now paying back". The Mirror badly needs more such scoops if it's to hold its slim circulation lead.

Carat, which specialises in buying advertising space, did a telephone survey last Thursday, and reports that readership of the Daily Mirror had gone up by 29 per cent on the day; circulation may have increased by 11 per cent. A W R Smith survey of 600 newsgateways found that Mirror sales had risen 17 per cent on Thursday and the Mirror says it has been printing an extra 400,000 copies. By contrast, The Sun printed an extra 300,000 copies.

The reason for Carat's research is that its space buyers are frequently called by newspapers promising a big story and trying to get buyers to pay closer to rate card rates for the advertising space. But while circulation increases are important, increased readership levels are much harder to gauge.

So the good news is - salaciousness sells. Come to think of it, isn't that the bad news, too?

### Limp joke

Spare a thought for the modern manager in Hong Kong. Not only is the stock market wilting but, it seems, other things are as well. The topic of discussion at today's lunch at the Rotary Club of Wanchai - from whence Suzy Wong once hailed - is "The Modern Management of Impotence".

## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

### Authority of AGM is no panacea

From Mr Edmond Jackson.

Sir, I am sceptical that Dr Maurice Gillibrand's proposals (Letters, August 11) for legislation to restore the authority of annual general meetings or to introduce two-tier boards are significant for competitiveness.

Corporate governance is no panacea. Japanese companies win because they manufacture quality goods at a price that people want. Meanwhile, their AGMs are, sometimes, arguably populated by gangsters.

If AGMs are given more power, minorities able to attend could force change against the majority. Perhaps investors should find ways to exchange ideas and exert constructive, on-going influence.

German practices do not simply import two-tier boards will throw sand into the Anglo-Saxon corporate machine. Let us preserve efficiency in the unitary board until investors act more responsibly. "Dividend-strippers" are as bad as greedy directors.

Edmond Jackson, Chertsey, Surrey CR3 7TH

### Closing off an open season

From Mr Peter Kleeman.

Sir, It seems incongruous that securities analysts are permitted to write reports, presumably without direct corporate contact, during a company's "close season".

An altered profit forecast, without a right of reply, can have a devastating effect on a company's market capitalisation. These regulations hardly seem sensible, particularly for a nation that believes in fair play.

Perhaps the deafening silence from the corporate sector on this can now be broken. Peter Kleeman, Allstate Asset Management, 7 Old Park Lane, London W1Y 3LJ

### The Bundesbank is led to the dock

From Mr Howard Flight.

Sir, The argument for an independent central bank is that it should be free of party political interference, not that it should conduct monetary policy without regard to national, regional or global interests.

Whatever policy the Kohl government followed over reunification, it was bound to unleash a large federal deficit and inflationary pressures in Germany. As the western German population is now aware, German reunification needs a strong, growing west German economy to finance the subsidisation of eastern Germans' living standards until there is a sustained upswing in the east - even if at the cost of higher German inflation than the Bundesbank would wish.

In Europe as a whole, very high real interest rates threaten to turn recession into depression. The governments of Europe have been remarkably patient with the Bundesbank, although it is threatening nearly 10 years of European effort for greater economic and political integration. Surely there must be compromise of some economic habits to achieve the latter?

It is ironic that, just when German reunification presented a short-term reason for Germany to shift its anti-inflationary economic and monetary priorities, accommodating European convergence, Bundesbank intransigence is threatening the EMU commitment.

Beyond Europe, the dominant economic forces are strongly disinflationary. But Germany is the one economy which, for reasons of reunifica-

tion, could afford a more relaxed stand on the inflationary front.

Yet Mr Otmar Issing, the Bundesbank's chief economist, advises there are no grounds for a cut in Germany's interest rates. This, despite the unreliability of German money supply data.

The German government might point out to the Bundesbank that monetary targets might be achievable only at the cost of many more than 3m unemployed in Germany, of the destruction of the EMU programme and global depression.

A DM exchange rate adjustment within the ERM is not the answer to the problems. We need a prolonged low-interest-rate German reunification boom. The European currency bloc is overvalued against the dollar and yen as a result of Bundesbank interest rate policies. And this is aggravating recession.

A future European-wide central bank must clearly - like the US Federal Reserve - be more accountable in the broader European political and economic interest.

The governments and central banks of Europe and the G7 block - including the Kohl administration - should pressurise the Bundesbank, and be prepared to consider constitutional changes if necessary, to halt this folly.

Howard Flight, managing director, Guinness Flight Global Asset Management, Lighterman's Court, 5 Gainsford Street, Tower Bridge, London SE1 2NE

### Spat over a 10-gallon hat

From Dr Lane Hughston.

Sir, Jurek Martin and Matthew Kaminsky suggest in their report on the Republican convention ("Houston in a whirl as the party hurricane hits", August 18) that "it is the constitutional right of every Texan, and most of the south, to drink and drive". Now Texans are good-na-

tured people who enjoy poking fun at their own often colourful attitudes. But this characterisation, though undoubtedly intended in jest, is in bad taste.

It also misrepresents the views held by most Americans. Lane Hughston, Hurricane Creek Ranch, Route One, Anna, Texas 75348

### A tourist's tale of London

From Mr Mohamed A. Vayid.

Sir, The matter with the British economy is not just government policy, nor the position of sterling within ERM. I spent a period in London in June and July and I can report a catalogue of difficulties.

After spending a few hundred pounds on bed linen at John Lewis in Oxford Street, I could not have it packed for carriage on the plane. The export department, to which I was directed, dismissed my request, saying it only answered enquiries and executed orders from overseas.

At Debenhams, a folding table and chairs, described as being in stock and available for quick delivery, could be delivered to an address merely 2km away only several days later. The salesman would not even arrange, when told that the buyer was leaving London that day, for delivery before noon.

A suit bought at Harrods needed a minor alteration and I was asked to collect it the following week. A telephone call confirmed it was ready. But when I went to the shop and tried it on, the work had not been done. I was asked to return. No luck this time also: the alteration was faulty. The third time, I was lucky. The extra taxi fares: £35.

Barclays Bank, in Putney High Street, refused to honour a draft for \$500 in favour of an account holder because it had to check whether Mauritius had "enough foreign currency to cover this amount". As this could take time, the account holder presented the bank manager with a cheque from a friend for £150 drawn on Lloyds. Told it might take five days to clear, the account holder asked the manager to fax Lloyds to confirm the cheque was good, offering to pay any extra charge. The manager refused.

To redeem itself, British business needs to go back to the basics of salesmanship. Mohamed A. Vayid, managing director, Strategic Management Consultants, Quatre Bornes, Mauritius

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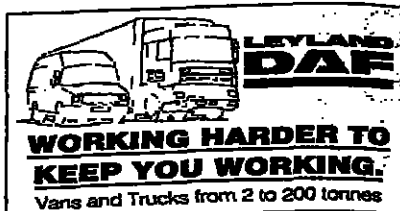
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# FINANCIAL TIMES

Monday August 24 1992



## German opposition party responds to grassroots pressure SPD switches policy on refugees

By Christopher Parkes  
in Bonn

GERMANY'S opposition Social Democrats (SPD) changed its position at the weekend on two of the most delicate policy areas plaguing the Bonn government: asylum-seekers and the use of German forces in UN-led military operations.

Bowing to grassroots demand and risking a rift with his party's left wing, Mr Björn Engholm, party leader, said immigration must be "braked and controlled". The party was ready to approve a change in the constitution if necessary.

Some 240,000 asylum-seekers took advantage of Germany's liberal laws in the first seven months of this year, arriving at the rate of one a minute during

July. Last year's total was a record 356,000.

Most are seeking work in Europe's richest country and have, by law, to be housed and fed by local authorities and individual state governments. Mr Engholm has come under pressure from state authorities, most of them SPD-controlled, for a change of course.

In future, he said after a private meeting of party leaders, people arriving and giving no reason, or false reasons, in their request for asylum should be excluded. Those from countries where there was no political persecution, should also be turned away.

Mr Rudolf Seiters, interior minister, welcomed the change, though it had come "late". Leaders of the main coalition parties,

the Christian Democrats and Christian Social Union, demanded an immediate start to talks on constitutional change.

The SPD also renounced its opposition to the use of German forces in international military actions under the UN flag. Mr Engholm called for UN reform, so the body as a whole, not just "three or four states", took responsibility for policing world peace. That could be achieved in a few years.

Meanwhile, the party was ready to "decide on" German military participation in the case of "unforeseen conflicts". The decision on use of the military is partly a response to divisions within the SPD over the conflict in the former Yugoslavia. The constitution is vague on the use of German forces, but has

traditionally been interpreted by all parties as banning deployment outside the Nato area. But the government has pressed for a more liberal interpretation to allow an enlarged Germany to fulfil its increased international obligations.

Mr Klaus Kinkel, foreign minister, said he had already drafted an amendment to clarify the constitutional issue, which also laid down conditions for out-of-area involvement.

These included deployment of volunteers, under UN command and only after an examination of each case by the Bundestag. To help in the current conflict, Mr Kinkel proposed sending customs officials to non-German borders, plus logistical help to police the embargo against Serbia and Montenegro.

One side-effect of the Maastricht treaty may be to drive Europe more quickly towards privatisation. With governments under additional pressure to bring public sector finances under control the equity market is being asked to shoulder an increasing chunk of the burden. The Italian government has pencilled in 142,000bn from sales of commercial assets by the end of 1994. Last month Germany outlined a programme which will probably start with the offering of a 25 per cent stake in Lufthansa. A giant flotation for Deutsche Telekom - valuing the group at anything up to DM70bn - may not be far behind. France is looking to raise FF15bn next year, assuming the Socialists retain power, while under a centre-right government privatisation will have a far greater role. To this must be added rolling programmes in Spain and Portugal, and the first bid at privatisation in cash-strapped Belgium.

In contrast to early UK experience, the recent continental wave of privatisation is driven by budgetary pressure rather than reforming zeal. Equity investors will still be hoping for efficiencies as nationalised industries are put to the test of the market. Partial privatisations which leave the state in majority control, though, may be the worst of all possible worlds: making additional demands on the equity market without the promise of real efficiency gains.

Smaller European equity markets may benefit from greater liquidity and the breadth of investors that a privatisation programme can attract. The experience of the UK suggests supply can be perfectly benign in the upswing of the economic cycle. On the downswing, however, the story is likely to be different. Will governments relying on asset sales to meet strict Maastricht-style criteria be prepared to pull back if the market turns against them? After all, every lira not raised from the equity market will have to come from either taxation or the bond market. In a recession the economy can barely afford the former, while the latter hardly solves the problem of public sector indebtedness.

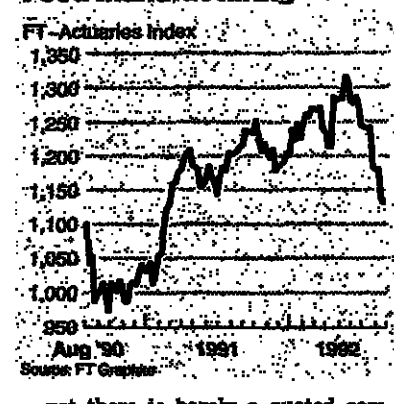
UK food makers

The traditional defensiveness of the entire UK food manufacturing sector has taken a serious knock in the past couple of weeks. Stock market attention has been focused mainly on Hillsdown - whose shares have collapsed by more than a quarter since August 8

## THE LEX COLUMN

### Sharing the deficit

#### Food manufacturing



yet there is barely a quoted company apart from Unilever which remains unscathed by recent broker downgrades. Northern Foods, Unigate, United Biscuits, and Banks Hovis McDougall - a representative enough sample from a peculiarly diverse industry - have all underperformed the FT-All Share Index by more than 10 per cent in the past month.

The savagery in some analysts' pens has startled even experienced observers, prompting suggestions that some of the latest estimates are wild and possibly unduly pessimistic guesses. With many companies in their closed reporting season, after all, the market would normally wait to see interim numbers in September before making any substantial end-of-year profit adjustments. One can also point to special factors behind the more substantial falls. Unigate's vulnerability to imminent changes in the methods of milk distribution by the Milk Marketing Board, Northern's and UB's sensitivity to trends in the UK biscuits market, and the impact on RHM of a tight harvest for bread milling wheat.

Even so, the market is understandably worried about postponement of economic recovery beyond the important Christmas season, and growing evidence from the high street that on top of lower prices for seasonal items food price inflation generally has almost disappeared. That means manufacturing margins will be under pressure from the retailers, notably for non branded products or those where there are other suppliers. Sainsbury's tendency to purchase chickens from France and Iceland's ability to source pizzas from Germany is a reminder that supermarket buyers have become increasingly European. Possibly the biggest threat, though, comes from the consumer in a long recession. The dis-

cretionary element of the shopping basket, after all, has grown bigger and bigger in the past 10 years as manufacturers sought to widen their margins with higher added value products.

#### European car market

Ford's decision to put its UK plants on short-time working is partly a reflection of the poor state of the British economy. But the move also says something about the weak state of Europe as a whole. Last year car manufacturers were relatively sanguine about depressed sales in Britain and France, because post-unification Germany was growing rapidly. This year Germany was expected to slow, with Britain, France and Spain taking up the slack. Germany, however, has now turned down sharply but the British and French markets at least remain stubbornly depressed.

Excess capacity has a double impact on Europe's carmakers. German groups could comfortably sell much of their output at home last year, so had little need to chase market share elsewhere. That has now changed. Price competition was also subdued in markets outside Germany while non-German manufacturers could divert production to the German market. Now the worry is that German manufacturers will compete aggressively for a bigger share of export markets, sparking price wars. Manufacturers with dated or unpopular models - like Fiat and to some extent Ford - are likely to be hit hardest.

Shares of Europe's carmakers have already fallen in anticipation of extra margin pressure. But there are still worries about the high labour costs of German manufacturers. While much of German industry can ease such costs by high productivity, carmaking technology is increasingly easy to transfer. Companies such as General Motors now find it cheaper to make a Cavalier in Britain rather than Germany, a problem exacerbated by the strength of the D-Mark.

The problem is even greater for component makers. The tradition of German component manufacturers being challenged because UK manufacturers now have a significant price advantage. Lucas, T&N and GKN have all made gains in market share, and the opening of Japanese transplants will help further. In the short term cyclical pressure may depress profits, but further out Britain's component manufacturers look well placed.

## Contractors confident of settlement in channel tunnel row

By Robert Peston and  
Roland Rudd in London

THE long-running dispute over the cost of building the channel tunnel may be close to settlement.

Its resolution now hinges on the manner of financing the cost over-run, rather than the size of the additional costs.

Eurotunnel's building contractors, grouped in the Transmanche Link (TML) consortium, indicated at the weekend that they are within weeks of settling the dispute, which in has threatened to bring work on the project to a halt.

The size of the settlement is likely to be the maximum permitted without Eurotunnel making a serious breach of its banking covenants.

That would mean Eurotunnel could make a cash payment to TML of no more than £1bn, in historic prices as opposed to today's prices.

However, the eventual settlement is likely to be £1.3bn. So Eurotunnel is offering £300m - equal to about £300m in today's prices - in some form of equity, probably a convertible debenture.

Eurotunnel has stressed that any equity issued to TML will not be equal to more than 10 per cent of its existing equity.

But TML's UK members - BICC, Taylor Woodrow, Costain, Wimpey and Tarmac - do not want so much equity.

UK construction companies have been hurt severely by the recession and most of them need cash.

The French members of the consortium are understood to be less hostile to the equity offer.

Once the deal between TML and Eurotunnel is agreed, it must be approved by Eurotunnel's 206 banks. If the settlement is no more than £1bn in cash and £200m in equity, 65 per cent of the banks as measured by the value of their loans would have to vote in favour.

If TML were promised more, 90 per cent of the banks would have to give approval.

One of Eurotunnel's leading bank creditors said 90 per cent approval would never be won, because a number of banks are disenchanted with the project.

On the question of how much TML should be paid to take account of increases in the costs of building the tunnel since its initial contract was negotiated, the two sides are still £150m apart.

However, an executive with a close knowledge of the talks said that "serious arguments" were focusing on just £50m.



Hanan Ashrawi, Palestinian spokeswoman, hugs her daughter before leaving for Washington

## Israel releases 800 Palestinian prisoners before talks resume

By Our Middle East Staff

ISRAELI yesterday announced the easing of some restrictions on Palestinians living under occupation and the release of 800 prisoners.

The concessions came as Arab and Israeli delegations gathered in Washington for the sixth round of Middle East peace talks.

A statement from the office of Mr Yitzhak Rabin, Israel's prime minister, said a number of steps were being taken to "improve the atmosphere among the Arab population in the West Bank and Gaza strip".

Apart from the prisoner release, Israel was also reopening Palestinian homes and streets sealed by the army. Such forms of collective punishment, under which families of Palestinian activists are made to suffer, has been much criticised internationally.

In addition, the statement said streets in Palestinian areas which had been sealed by the army during violent clashes would gradually be reopened.

The statement expressed the hope that the measures "will have a positive contribution on the willingness of the Palestinian population to support the progress of the peace negotiations".

The apparent goodwill gesture follows a bitter row on Friday after Israeli officials barred support staff travelling with Palestinian peace negotiators from crossing into Jordan on their way to Washington.

The Palestinian delegation turned back in protest and demanded that the Israeli authorities cease their "harassment" of the Palestinian negotiating team.

Mrs Hanan Ashrawi, the Palestinian spokeswoman, said in Jerusalem before leaving for Washington that the delegation had been assured it would not be subjected to further interference by the Israeli authorities.

"We have the assurance of the Americans that we will not be interfered with and they told us that they have this assurance from the highest levels of the Israeli authorities," Mrs Ashrawi said.

She added: "We feel we have achieved something absolutely basic - the recognition of the status of the delegation and recognition that we should not be made subject to the dictates and the whims of the Israeli authorities."

Mrs Ashrawi said details of a written agreement on the status of the Palestinian delegation would be worked out during the Washington talks to avoid further "harassment".

The latest round of talks is the first since Mr Rabin and the Labour party came to power. Mr Rabin has promised to freeze new Jewish settlements in the occupied territories not required for security reasons and wants to negotiate a swift agreement on autonomy for the Palestinians.

The precise starting date of the negotiations, which will be held in the State Department, is uncertain because the Palestinian delegation was delayed by Israeli authorities leaving the occupied territories in a dispute over travel documents.

## US citizens warned to avoid Mideast

Continued from Page 1

integrity and opposing the allied plan.

Egypt is also known to be concerned at the US action, and even Gulf countries such as Bahrain, where Britain based its Tornados aircraft during the Gulf war, have sought to head off further US involvement in Iraq. Only Saudi Arabia and Kuwait are

believed to be fully behind renewed military action.

Mr Kamel Abu Jaber, Jordan's foreign minister, appeared to sum up Arab fears when he said: "Any measure that aims at curtailing the unity of the Iraqi people and its territorial safety will lead to destabilising the region's security and subjects its states and people to dangerous options."

Iraqi opposition groups and reports from Iran said yesterday that Shias in the south had come under fresh attack from President Saddam's troops who were using heavy artillery and tanks.

The aim of the allied air exclusion zone is to protect the Shias from persecution by Baghdad in defiance of the regime's obligations imposed by UN resolutions after the Gulf war ceasefire.

## Panic challenged after crackdown on 'ethnic cleansing'

Continued from Page 1

One Croat was found murdered after Mr Vojislav Seselj, an ultranationalist Serb leader who visited the village in July, read out a black-list of 17 people who he said had to leave the village.

If the federal government caves in to the threats and frees Mr Sibinic, it would set an ominous precedent for ethnic minorities in Serbia, where Serbs make up only two-thirds of the population.

Elsewhere, fighting continued in the Bosnian capital of Sarajevo

yesterday. Sarajevo radio said 22 people had been killed in the city since noon on Saturday.

Mr Ivo Dawsay in London writes: Mr John Major, the UK prime minister, will open the London conference on Wednesday with a speech as European Community

president. His address, expected to condemn Serbian human rights abuses and press for tighter sanctions against Belgrade, is also intended to build bridges between the EC and the UN, whose relations have been strained by poor co-ordination.

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INSIDE

US chip maker shifts operations to Japan

LSI Logic, the Silicon Valley semiconductor manufacturer, is to close its plant in Germany, reduce operations in the US and shift most of its manufacturing to Japan and the Asia Pacific region. About 450 jobs will be lost, including about 275 in Germany, in a broad restructuring of the group's manufacturing and product strategy. "Our cost structure is out of line with the current level of revenues and we are compelled to reduce costs, and do it quickly," said Mr Wilfred Corrigan, chairman and chief executive. Page 12

Research pledge by UBS P&D

UBS Phillips & Drew, the securities house, has written to leading fund managers stressing that it is committed to the "production of independent research" on companies. The letter is a response to what the firm calls "ill-founded and objectionable allegations that Mr Terry Smith, head of the firm's UK research department has been suspended due to pressure from major companies". But several investment fund managers said they found the UBS letter unconvincing. Page 12

FRNs return to favour

There are signs of a revival of interest in the floating-rate note market, once the most liquid sector of the Eurobond market. But some traders who lived through the market's collapse in 1986 believe the market may still carry the seeds of its own destruction. Page 13

Investors run from treasuries

Just when it thought it was safe from George Bush's appetite for vote-catching tax cuts, the bond market was caught unaware last week by, of all things, a plunging dollar. Initially, the dollar does not figure in the bond market's daily calculations, but so unnerving was the currency's decline on Friday that treasury investors turned tail and ran. Page 14

Sterling's weakness cast a shadow over the gilt market, forcing up yields for short-dated bonds owing to expectations that the UK government may soon be forced to lift base rates. Page 14

Ciba-Geigy ahead 12%

Ciba-Geigy, the Swiss chemicals and pharmaceuticals group, said its consolidated net profit in the first half rose 12 per cent to SF1.4bn (\$1.09bn) on sales also up 12 per cent to SF12.26bn, and forecast "further profit growth during the second half of the year". Page 12

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Foreign banks split on loans to Efim

By Haly Shmonian in Milan

DIVISIONS have emerged between foreign bank creditors to Efim, the Italian state holding company put into voluntary liquidation last month, ahead of this week's meeting with Italian treasury officials in London.

nate their positions.

Separately, there have been unofficial indications that the Italian treasury may be prepared to soften its position on the treatment of bank creditors, opening the way to a compromise.

As a result, banks would receive only around 80 per cent of the total principal and interest due.

Last week, about 15 foreign bankers met senior treasury officials in Rome to discuss their differences.

However, the meeting was limited to an exchange of views, with detailed talks being left to this week's session in London, expected to take place on Wednesday or Thursday. Foreign bank creditors appear

divided between those calling for an immediate declaration of default on Efim's loans, and possibly the invocation of cross-default clauses on loans to Iri and Eni, Italy's two other state holding companies, and others recommending a less hawkish approach.

Gaps have also emerged over bankers' interpretations of the treasury's position.

At last week's meeting, Mr Mario Draghi, its senior civil servant, made it clear that no solu-

tions had been "pre-judged". Foreign banks are at odds as to whether that apparent flexibility is a tactic to gain time and exploit creditors' divisions, or indicates a real willingness to raise interest rates on the bonds - the crux of the dispute.

Meanwhile, the Italian treasury appreciates that foreign banks could play a decisive part in plans to privatise state assets to cut the budget deficit and the risks it runs if the conflict continues.

London SE reviews its powers to discipline

By Robert Peston and Roland Rudd in London

THE LONDON Stock Exchange is conducting an informal review of how to punish listed companies which breach the rules contained in the exchange's Yellow Book.

Senior officials believe the exchange's punishments are inadequate. "Some companies and their advisers are taking no notice of the Yellow Book", complained one.

The Yellow Book contains the rules which companies should follow after they are listed. One of the most common breaches is to release price sensitive information to selected newspapers, before making an official announcement to the exchange. Another breach is making a Stock Exchange announcement which turns out to have been misleading.

Over the past few months, the exchange has investigated 26 examples of alleged leaks by companies. It convinced there has been a deliberate leak, the exchange will normally reprimand the company in private.

One official said: "Do not underestimate how embarrassing it is for a company to be told that it has broken the rules."

However, another exchange executive believes the exchange should be tougher. It has two additional punitive powers. It can publicly criticise a company or it can delist a company. The exchange would probably never use delisting as punishment if a company leaked information.

"We have to consider the interests of shareholders", said an official. "If we delist the shares, they suffer, even though they are not to blame for the rule infringement."

The last time the exchange censured in public was a year ago, when two directors of Mountfield, Mr Nelson Peltz and Mr Peter May, were criticised for selling shares in the group two months before it disclosed poor results and launched a rights issue. In recent years, the only other companies to face public censure were Polly Peck and Tottenham Hotspur.

Mr Peter Rawlins, the exchange's chief executive, has had a meeting with the City & Financial Group of the Institute of Public Relations to discuss what to do about leaking. "We [the Institute] think the exchange should censure in public," said Mr Geoff Kelly, head of public relations at investment bank Barclays de Zoete Wedd.

Steven Butler on Tokyo market reaction to government statements on the financial system

Japanese banks return to favour with investors

IT TOOK just three days last week for Tokyo's sagging Nikkei stock index to put on 1,907.47 points, or 13.3 per cent to close at 16,216.88.

The broad rally in the market was underpinned by an even more powerful rise in bank share prices. On Friday alone, the Nikkei bank share index shot ahead by 8.7 per cent, compared with a 6.3 per cent rise for the market as a whole. A conviction has quickly spread among investors that something fundamental has changed in the outlook for the banks, and that the government is now committed to solving their problems of poor profitability, inadequate capital and, most serious, the enormous burden of bad debt.

Yet aside from a few measures aimed at tidying the market over the first half of the financial year, which ends next month, almost nothing concrete emerged last week to address the bank's deeper problems. It is therefore important to ask whether the perception that the government has changed its attitude - followed by a flurry of leaked news reports about measures under consideration - can justify such a change in market sentiment.

The measures were offered on Tuesday evening by Mr Tsutomu Hata, the finance minister. Mr Hata said that banks would not have to report and provide for unrealised losses on securities holdings at the interim, thus reducing incentives to realise capital gains on other shares to boost profits. Banks would also be allowed to distribute more than 40 per cent of profits as dividends, thus allowing them to maintain payout levels without selling shares for profit.

Mr Hata said he hoped to halt a vicious cycle in the market in which declining share prices forced financial institutions to sell more shares, thus driving securities prices even lower. Yet perhaps even more important for sentiment than the temporary measures offered was Mr Hata's admission that Japan's financial system was standing on the edge of a precipice, facing its worst crisis since the second world war.

On Wednesday afternoon, Mr Yasushi Mieno, the central bank governor, confessed for the first time to concern that the low level of the stock market was having negative effects on Japan's economy and banking system. Until then, Mr Mieno has repeatedly said that Japan's financial system was sound and that the central bank would not save imprudent investors by moving to shore up sagging share or property prices.

Indeed, financial authorities seemed at last to be thinking along similar lines. Mr Mieno endorsed an idea under discussion to establish a corporation to purchase land held as collateral by banks for bad loans, and thereby help to remove bad assets from the banks' balance sheets.

Since then, an avalanche of proposals apparently being drawn up by the Finance Ministry for inclusion in an emergency economic package to be announced on Friday have hit the nation's press.

They include: a corporation to purchase property and possibly bad property loans from the banks. Most analysts believe banks have between ¥25,000bn (\$200bn) and ¥30,000bn of loans, mainly for

Nikkei Banking Index

Relative to Nikkei Average Index



Source: Datastream

property, for which no interest is being paid. Up to ¥3,000bn may be unrecoverable, but in the meanwhile banks cannot get bad loans off their books because the property market is so illiquid.

A corporation capable of buying the property, presumably at a market price below book value, would at least give the banks the option of choosing between keeping loans on the books until the market recovers or taking an immediate capital loss.

Another idea is to use the land itself as capital and to issue mortgage securities to investors. Mr Mieno and Mr Mamoru Ozaki, vice finance minister, have both welcomed the concept. But neither has warned to the suggestion that the government or central bank should invest in it or provide cheap finance.

Ms Rie Ota, banking analyst at Baring Securities, says: "Who is going to bear the cost? That is the key question."

It would make little sense for the banks to invest in such a company themselves, unless substantial tax breaks are given to the banks for disposing of bad loans, which would amount to a

government subsidy. Realising the idea promises to be complex and time consuming, if practical at all.

● Tax Breaks. The Nihon Keizai Shinbun, the economic daily, has reported that Japan's 11 city banks would add more than ¥1,000bn to tax-exempt loan loss reserves in the current half year, with the blessing of the Finance Ministry.

The ministry in the past has allowed such provisions only after two years in which no interest has been paid. The ministry is also considering allowing tax breaks when banks cut interest rates to help out troubled borrowers.

The problem, however, is that banks are big taxpayers. With tax revenues expected to be ¥6,000bn to ¥10,000bn lower because of the weak economy, the ministry could prove very conservative in using its discretionary authority to grant tax breaks.

And with bad loan costs last year amounting to 175 per cent of pre-tax profits, banks could still be under tremendous pressure to sell shares unless the ministry comes up with an extremely

attractive, and costly, package.

Bank operating profits are being helped by lower interest rates, and could rise by over 20 per cent in the current half year.

The ministry has also basically solved the problem of banks meeting the 8 per cent capital adequacy requirements set by the Bank for International Settlements by showing more flexibility in allowing banks to issue relatively high-cost perpetual floating-rate notes or convertible bonds with mandatory conversion, which count as tier 2 capital.

It has also proved more flexible in allowing banks to securitise loans and sell them.

Yet a solution to the banks' more fundamental problem - how to get the huge volume of bad debt off their books - has been outlined only in the sketchiest form. Government authorities may have changed their attitude, but there is plenty of scope for disappointment later this week when the government unveils the detailed proposals to boost the economy. Investors who bid up bank shares last week are taking a lot on faith.

Spotlight turns on investment in Latin America

LATIN America's bid to turn its recent economic advances into sustainable growth will turn in large part on one issue: investment.

The signals appear more hopeful than at any time since the onset of the debt crisis a decade ago. Of the \$40bn of capital that flowed into Latin America last year, Salomon Brothers, the Wall Street securities house, estimates that foreign direct investment jumped to nearly \$14bn. Executives at many multinational companies say they are seeking to boost investment in Latin America after decades of, at best, holding on.

None the less, it is not yet clear, even in the most successful economies, whether enough investment will arrive to sustain growth.

Furthermore, the amount of investment isn't everything: investment was plentiful during the free-spending 1970s in Latin America - and hugely inefficient.

As JP Morgan, the US investment house, points out in its latest issue of World Financial Markets: "For most of Latin America, emphasis on investment quantity is less critical than the need for sustained improvement in its quality."

The Brazilian economy is a case in point. The level of fixed investment in Brazil was the highest in Latin America during the 1980s, accounting for at least a fifth of GDP throughout the period. However, because the economy was riddled with price distortions and controls, the results in terms of growth of output have been unimpressive: a meagre 0.7 per cent a year from 1987 to 1991.

Over the next five years, Morgan calculates that \$960bn of gross fixed investment will be needed to generate annual growth of at least 5 per cent in the seven biggest economies - Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela. This represents a relatively modest 11 per cent increase on the \$863bn invested

in the five years to 1991, when investment was depressed.

The calculation depends on the economies coming close to the level of investment efficiency already achieved by Chile, where economic reforms are the most advanced.

The indication of Chile's productivity achievement is the growth over the last decade of the country's co-called total factor productivity (TFP), the amount by which output

computers, as in the rich countries. The dropping of tariff barriers and government controls also means that, unlike in the past, Latin economies are able to import the latest technologies.

Most of Latin America has also taken great strides in rehabilitating market mechanisms, thereby allowing prices to provide accurate signals for the allocation of resources.

As a result, the Morgan econ-

Economics Notebook

By Stephen Fidler, Latin America Editor

growth exceeds growth in inputs of capital or labour. The higher a country's total factor productivity, the higher the output generated by any given amount of capital.

TFP encompasses a variety of influences on productivity such as technological advancement, economies of scale and education. It is also influenced heavily by the economic and regulatory environment in which the investment is made.

In Chile, and Colombia, growth in total factor productivity during the 1980s exceeded that in the industrialised countries.

Morgan reckons other Latin countries may be able to match their performances, partly because their investment patterns are becoming more like those in rich countries. For example, current rapid growth in service industries in Latin America will require the same high-tech investments, such as

omists say it is not fanciful to believe that investment can be generated sufficient to secure the 5 per cent target.

However, meeting the investment requirement will be harder for some countries than for others. According to Morgan's calculations, Brazil - which accounts for half the region's investment outlays - could secure the growth target by investing 9 per cent less than the \$445bn it invested from 1987-91. But it would have to introduce competitive technology and wide-ranging economic reform to do so. Brazil is so far behind on implementing structural reforms it is "unlikely to achieve the investment efficiency within the grasp of the others," Morgan concludes.

At the other extreme, Argentina would need to boost investment by 145 per cent over 1987-91 levels to achieve 5 per cent growth. "This may be

too ambitious," says Morgan. Fixed investment fell to 8.9 per cent of GDP in 1990, the lowest in Latin America, and rose to only 10 per cent last year, in spite of a successful reform programme.

Peru and Venezuela would also need substantial rises in investment - both of 23 per cent. But Mexico requires only a 16 per cent rise, and Colombia an increase of 5 per cent to meet the growth target. Investment in Chile dropped sharply in 1991, a result of government attempts to stop the economy overheating, but fixed investment is again on the rise. "It should exceed 30 per cent of GDP this year - more than enough to meet the 5 per cent target," Morgan says.

The report, while acknowledging the importance of foreign investment as a catalyst for growth, underlines the central role of domestic saving in capital formation. Here the news has not been good, as saving rates have been falling in the region.

It suggests initiatives in three areas to correct this: more public saving (ie reduced government borrowing); social security reform - following the example of Chile whose pension system reforms have transformed the country's capital markets into the most mature in the region; and restructuring domestic banking systems.

The report concedes that over the next few years Latin governments will be constrained in their attempts to cut spending by pent-up demand for investment and for spending on social services. Infrastructure has deteriorated so badly in some countries, such as Peru and Venezuela, that it may now constitute a bottleneck to future growth.

Public saving will therefore probably be increased by continued privatisation, resisting public sector wage increases and sustained efforts to broaden inadequate tax bases.

UK textile group plans London flotation

By Daniel Green in London

ONE of Yorkshire's largest textile companies is planning the biggest textile industry flotation on the London Stock Exchange for almost a decade. Woolcombers Group is part of the Illingworth Morris Group, owned by Mr Alan Lewis who acquired a majority stake in 1983 and took it private in 1988.

A pathfinder prospectus and share placing are planned for next month by the company's broker James Capel.

Less than half the group is to be sold and the company is likely to have a market capitalisation of \$35m-£40m.

Three divisions of Illingworth Morris are to be floated under the Woolcombers Group name: Jarman, which processes UK wool mainly for carpets; Woolcombers (Processors) which processes UK and southern hemisphere wools for carpets and clothing; and Westbrook Lanolin which takes by-products from the first two companies and refines them into pharmaceutical lanolin for cosmetics, toiletry and medical products.

Illingworth Morris is one of 35 subsidiaries of Log Trust, a UK company 75 per cent held by Hartley Investment Trust, wholly owned by Mr Lewis, and 25 per cent held by an offshore trust of which Mr Lewis is the sole beneficiary.

The remainder of Illingworth Morris consists of yarn, weaving and clothes manufacturing operations as well as the Crombie brand name traditionally associated with overcoats. Background, Page 14

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## COMPANIES AND FINANCE

## LSI Logic to centre its manufacturing in Japan

By Louise Kehoe

LSI LOGIC, the Silicon Valley semiconductor manufacturer, is to close its plant in Germany, reduce operations in the US and shift most of its manufacturing to Japan and the Asia Pacific region.

About 450 jobs will be lost, including about 275 in Germany, in a broad restructuring of the group's manufacturing and product strategy. "Our cost structure is out of line with the current level of revenues and we are compelled to reduce costs, and do it quickly," said Mr Wilfred Corrigan, chairman and chief executive.

LSI, which specialises in application specific integrated circuits, will take charges of \$65m to \$100m in the current quarter and expects to report net losses of about \$100m. For the second quarter, LSI reported losses of \$5.8m on sales of \$151.8m.

The German assembly and test factory in Braunschweig was opened in 1985 and is one of the most advanced of its kind in the world. It was built to serve expected strong

demand from the European computer industry. Mr Corrigan said, but the anticipated level of demand failed to materialise.

"There is very little PC or computer workstation manufacturing in Europe, and this represents a large portion of our market," he noted.

The rise in the value of the D-Mark against the dollar has made the factory more costly to operate, Mr Corrigan added, and it could no longer compete with the lower costs of subcontractors in Asia.

In addition to closing the German plant, LSI Logic said that over the next 18 months it would shift the bulk of its wafer fabrication operations to Japan where it had a large scale facility and was in the process of constructing a new factory in a joint venture with Kawasaki Steel. Research and development as well as pilot line production would remain in the US.

"Following completion of the new wafer factory in Japan in 1993, LSI Logic does not foresee the need to build new wholly owned plant capacity," said Mr Corrigan.

The company aims either to share the cost of future plants with strategic partners as it has in Japan or to subcontract manufacturing. The cost of new semiconductor plants has risen sharply over the past few years, making them affordable by only the world's largest chip makers.

"By the mid-1990s we are going to see a lot of shared chip plants," Mr Corrigan predicted. LSI's problems stem from losses in the market for personal computer chipsets driven by sharp declines in PC prices.

However, the bigger issue faced by LSI is high overhead costs. The cuts will reduce costs by about \$10m per quarter, the company said. LSI projected net losses of about \$100m after charges for the current quarter but said that it hoped to return to profitability in the fourth quarter.

"We are committed to lowering our break-even point, restoring profitability, and pursuing a value-added product strategy with emphasis on intellectual property, ASIC design tools and system-level integration," Mr Corrigan said.

## UBS hits back at 'ill-founded allegations'

By Roland Rudd and Robert Peston

UBS Phillips & Drew, the securities house, has written to leading fund managers stressing that it is committed to the "production of independent research" on companies.

The letter is a response to what the firm calls "allegations that Mr Smith has been suspended due to pressure from major companies".

It calls these allegations "ill-founded and objectionable". Mr Terry Smith, head of the firm's UK research department, was recently suspended for allegedly breaching internal procedures with regard to writing the book, called *Accounting for Growth*.

It is an expanded version of research published by P&D in January 1991, which highlighted a number of accounting techniques used by companies to boost the level of profits they disclose or minimise the level of borrowings shown on their balance sheets.

Several investment fund managers said they found the UBS letter unconvincing and voiced concern that independent research was being "stifled".

One senior fund manager said: "The fact is we have always suspected that companies can put pressure on security houses. The Smith episode appears to confirm this; nothing in UBS's letter makes us feel any happier about the situation."

The UBS letter, co-signed by Mr Rudi Mueller, chairman, and Mr Hector Sants, vice-chairman head of equities, says analysts are required to show before publication any "significant piece of material" to the company or companies covered by it before it is published.

"We do not, however, in any way guarantee to make changes to reflect differences of tone or interpretation, although a company's views are always considered carefully before our final decision is reached."

The letter goes on to accuse Mr Smith of not going through the standard procedures. It also alleges that a vast majority of the UBS research report in 1991 - on which the book was based - "was written and edited by our senior analyst Richard Hannah".

Mr Smith, who attended a UBS disciplinary hearing on Friday, said: "I was never aware of any standard procedure at UBS."

"As to the writing of the book, I have never taken away the fact that I received help and contributions from my colleagues."

## A case of getting the timing right

Daniel Green on the prospective flotation of Woolcombers

KARATE helps keep me calm in stressful situations," says Mr Alan Lewis, a black belt, second dan, who trains three times a week with the top rated karate teacher in the UK.

He is also a committed Christian, head of CBI Eastern Europe - established to boost trade with eastern Europe - and a Lancastrian who controls a string of textiles companies in the traditional enemy heartland of Yorkshire. Next month he plans to float on the stock market a minority stake in part of his textiles empire.

It may not be an easy task, even for as resolute and stress-free a man as Mr Lewis.

He has a strong track record in his favour. At 54, he has had almost four decades of picking bright business ideas and turning them into a lot of cash.

He left school in 1953 at 15 and, after training in printing, made his first fortune by car dealing and redeveloping depressed garage sites.

He then bought loss-making textiles companies, moving them into the property business or making them profitable and selling. His timing was spot on: he got out of markets just before the crash of 1973 and moved to Barbados.

He returned in 1975, when the recession was at its deepest, to buy property shares. The remnants of the Slater Walker financial empire now form his Anglo-Manx Bank.

In 1979 his ambitions settled on a troubled giant of the textiles world, Illingworth Morris. The company had fallen on hard times, beset by interminable squabbles between the board and 46 per cent shareholder Mrs Pamela Mason, a Hollywood chat show hostess and former starlet who had married actor James Mason.

She had inherited control of the company from her father, Isadore Ostrer, a penniless Lithuanian Jew who had arrived in Britain at the turn of the century. He rose from clerk to chief bank manager (Ostrer Brothers) and ran the Gaumont British Picture Corporation cinema concern before it was sold to J Arthur Rank.

Ostrer died in 1975 and his heir's eclectic ownership style included board appointments such as Mr Caspar Weinberger.

His record during Illingworth's relatively stress-free years was one of shareholder-pleasing profits growth. In 1982, Illingworth shares traded at 18p. In 1989 he paid 18p a share to take the company private, promising to one day return it to the market.

But Mr Lewis's effectiveness stands in sharp contrast to the patchy investment record of the textiles industry. There were only a handful of flotations in the 1980s and most hit trouble. One clothing manufacturer, Babygro, was sold within a year for one third of its initial market capitalisation. Others fell into loss, were forced to restructure or to pass dividends.

Mr Lewis's strategy - "to



Alan Lewis: resigned to further encounters with the MMC

who left to become President Reagan's defence secretary, and Mr Tommy Yeady, a hairdressing tycoon and former escort of British film sex symbol Diana Dors.

As the company's share price and profits slid, and death taxes officials pressed their claims on Mrs Mason, the corporate predators closed in.

It took four years for Mr Lewis to win the takeover battle. He outlasted rival bidders, endured the Mason family's court battles over control of the inheritance, and emerged triumphant from a Monopolies and Mergers Commission investigation.

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Mr Lewis's strategy - "to

The company Mr Lewis intends to float, Woolcombers Group, is a different beast. It deals with raw materials rather than clothing. It never assumes ownership of the wool in its charge, rather it earns a "tariff" per kilogramme to turn raw wool into a material suitable for spinning into yarn.

This means that turnover and profits are related to volume of business rather than the wool price. The link to volume is one of two main reasons for the timing of the flotation.

Most textiles companies suffered badly over the past three years as a halving of wool prices played havoc with the valuation of stocks.

But the price falls have helped sustain demand at levels about 10 per cent below those in the late 1980s. Low prices should mean steady demand and high volume, the right formula for Woolcombers.

The second reason is that the company has only just emerged from another Monopolies and Mergers Commission investigation, this time into the acquisition of Jarmain, a commission wool scouring company that is now one of the three divisions of Woolcombers Group.

Mr Lewis's strategy - "to

become number one in the UK and Europe" - worked too well, according to the MMC. It found that his companies had 52 per cent of the UK commission wool scouring market. Between 1990, when Mr Lewis took control, and this year, Jarmain increased annual turnover by 43 per cent to \$6.4m but trebled operating profit to \$738,000.

In July this year, after more than two years of MMC probing, Mr Lewis agreed to mothball one of his wool scouring lines for a year - another running alongside is now operating 24 hours a day, seven days a week - and for two more to be closed or sold.

He still controls enough of the industry to implement scouring tariff rises. July's 8 per cent increase, the first in two years, will be followed by another in January. The combination could double operating profits.

Woolcombers Group also dominates other markets. It has 84 per cent of UK lanolin production and about 15 per cent of the \$35m world market. It has patents to a treatment called Superwash that makes wool shrink resistant. Superwash has 72 per cent of its market in the UK. Capacity has just been doubled with a new line and the company has licensed the technology to Italy and the US.

Mr Lewis is resigned to further encounters with the MMC. "We are major players in these sectors. We are bound to come across them again," he says.

His record of profitability and success in dealing with the MMC may be enough to persuade the City to dip into the purse for the first textiles flotation of the 1990s.

But there will be two prejudices to dispel first: a decades-long mistrust of the textiles industry based on disappointing financial performance, and a more recent fear of tycoons with quoted companies who maintain parallel private and offshore vehicles. The Lewis empire now consists of several offshore vehicles including the Anglo-Manx Bank, as well as 55 UK private companies in property, finance and textiles.

The fact that he intends to keep majority control of Woolcombers Group is unlikely to reassure fund managers.

## Rothschild stays quiet over loans

By Ian Rodger in Zurich

SIR EVELYN de Rothschild, chairman of NM Rothschild & Sons of London, and lawyers for Rothschild Bank in Zurich were unavailable for comment Friday and yesterday on reports that the Zurich bank had made loans to a single client above the level permitted by the Swiss Banking Commission.

According to reports in Swiss media, the loans were made to the troubled York Hannover property group led by the Canadian-German financier, Mr Karsten von Wersebe. RBZ, which is controlled by NMR, early this month sacked one of its top executives, Mr Jürg Heer, after he was arrested for "irregularities" which are understood to centre around making large unauthorised loans.

Last month, the bank revealed that a recent credit review had found that some loans were not fully covered and so it proposed to quadruple its annual provisions in the year to March 31, 1992 to SF99.8m (\$75.6m) and to dissolve its SF63.5m in hidden reserves "as a safety measure". According to reports in Zurich, the bank's actual total of bad loans may be considerably larger than these figures indicate.

Such loans and provisions are unusual in a bank whose main activity is managing funds for rich individuals in return for fees. As a rule, these funds are invested in very conservative instruments, with a view to protecting clients' capital by avoiding unnecessary risk.

## NBC exposure to O&amp;Y rises to C\$500m

By Robert Gibbons in Montreal

NATIONAL BANK of Canada said its exposure to Olympia & York Developments and related companies rose from C\$478m (US\$400.8m) to C\$500m in the third quarter. It has made total provisions of C\$38m against these loans, including about C\$200m in the latest quarter.

Mr Andre Berard, chairman, said the bank's provisions for loan losses in the fourth quarter would be at normal levels and he expected the bank to show a small net profit. The bank has tightened up lending practices and its core business in Canada continues strong. The extra provisions brought a loss of \$118m, or \$1 a share, in the third quarter ended July 31 against a profit of \$39m, or 25 cents a share, a year earlier. Loss for nine months was \$36m, or 52 cents a share, against a profit of \$145m, or 94 cents a share, a year earlier.

## Ciba-Geigy gains 12% in opening term

By Ian Rodger

CIBA-GEIGY, the Swiss chemicals and pharmaceuticals group, said its consolidated net profit in the first half rose 12 per cent to SF1.4bn (\$1.06bn) on sales also up 12 per cent to SF12.26bn, and forecast "further profit growth during the second half of the year". Cash flow increased 11 per cent to SF2.03bn.

The strong performance was attributable mainly to the rapid advance of the group's pharmaceutical division where sales jumped 23 per cent to SF3.2bn. The group claimed this growth was twice as fast as that in the market as a whole and enabled it to move up one rank to become the world's fourth largest supplier of pharmaceuticals.

Ciba cited the successful US introduction of its transdermal patch, Nicotrol TTS/Habitrol, in the division's growth. US sales of the patches exceeded SF400m in the first half. Although competition was increasing and "proper patient usage" was needed, the group said the patches and a new menopausal drug, Estracomb TTS, would continue to fuel

growth through introduction in other countries.

The group's agricultural sectors fared less well. Plant protection sales were flat at SF2.8bn, hurt by a spring drought in many parts of Europe and changing buying patterns due to changes in EC agricultural policy.

Industrial product sales gained 10 per cent to SF4.6bn and the group said margins were improving. Growth for the remainder of the year was expected to be driven by sales in the US and Asia, especially of textile dyes, chemicals and additives and pigments.

Ciba pointed out that once again its sales figures were battered by a weakening Swiss franc. In local currencies, its overall sales growth was only 8 per cent. Since the beginning of the year, the group has set a goal of hedging against potential negative currency effects its total anticipated consolidated profit. Previously, it hedged only the net cash flow exposure flowing to the parent company.

As a result, it said the expected consolidated profit for 1992 was projected at a rate of about SF1.5 to the US dollar.

## Minorco may close Yuba Westgold unit

By Kenneth Gooding, Mining Correspondent

MINORCO, the Luxembourg-based investment arm of the Anglo American Corporation of South Africa, has given up its efforts to dredge gold from shallow seas. It invested about \$90m in two of these ventures in the past five years.

Dredging operations off Nome, Alaska, were permanently shut down in September 1990, and it seems the end is nigh for Yuba Westgold. This company has been producing about 25,000 troy ounces of gold a year with an offshore dredge near Marysville, California.

Western Gold Exploration and Mining, a 78-per-cent-owned Minorco subsidiary which in turn has two thirds

and management control of Yuba, said it would not provide additional financing for Yuba.

Consequently Yuba said it may have to file for protection from its creditors under Chapter 11 of the US bankruptcy law after failing to make a scheduled payment to Bank of America.

Minorco originally put \$80m cash into Westgold in 1987 in a joint venture with its US subsidiary, Inspiration Resources. Inspiration contributed some gold properties, including the one off Alaska.

Then in 1989 Westgold paid about \$16m and a production royalty for Yuba.

Inspiration Resources and Minorco shared a \$30m charge in respect of the Alaskan closure.

## Telebras ahead at \$354m for the first six months

By Bill Hinchberger in Sao Paulo

TELEBRAS, the state-owned telecommunications holding company, announced profits of \$354m for the first six months of 1992. In the whole of 1991, the company made \$121.8m.

Last week, the government authorised Telebras to make a foreign equities offering of \$500m. The company is expected

to make a private placement of American Depository Receipts shortly.

Telebras also announced that it would increase domestic long distance and base rates for subscribers by 30 per cent by the end of the year.

The new revenue should help Telebras meet its investment target of \$3bn for the current year.

The Gerdaul Group, Brazil's largest private steel producer, announced profits of \$29.5m for the first six months of this year.

Company officials said the result was 32.3 per cent better than that for the same period in 1991. Overall, the group registered profits of \$36m last year.

Gerdaul has been active in the government's privatisation auctions.

The company owns three steel mills once owned by the state. Most recently, in February, it acquired Acos Finos Piratini for \$107m, getting a foothold in the specialised steel sector.

## Uni chief to propose share plan

By Karen Fossil in Oslo

MR ANDERS Eekhoff, the chairman of Uni Storebrand, the beleaguered Norwegian insurer, is today expected to seek board approval to expand the company's share capital by at least Nkr2.5bn (\$347m).

The plan will include some form of state participation although Mr Sigbjørn Johnsen, finance minister, has ruled out direct state cash transfers.

The state is expected to provide a guarantee for a rights issue and is the main owner of Norway's top three banks, will order participation in the issue by Den norske Bank (DnB) and Christiania Bank, Norway's two biggest banks, who are experiencing financial difficulties.

Uni has been working on details for a rights issue for several weeks but turbulence within the company and volatility of its share price

has slowed the work.

A nominal value of Nkr20 per share has been set for the issue but last week Uni's A-share price plunged to new lows ending the week 40 per cent down at Nkr13.30 per share on the Oslo bourse, putting its market capitalisation at an estimated Nkr1bn.

The board and the state is seeking to avoid writing down below the share's nominal value.

Uni's problems stem from a misguided Nkr4.7bn investment to acquire a 28.3 per cent stake in Skandia Forsakring, Sweden's biggest insurer, together with Hafslund Holding, the troubled Danish insurer, Uni sought to create a pan-Nordic insurance alliance with Skandia, but failed.

Because of Skandia's limited voting rights Uni's strategy could not be forced on the company which saw the move as hostile and unwelcome. Skandia's share price has been extremely volatile in recent weeks causing the value of Uni's original investment, made at Nkr200 a share, to be cut by more than half.

Adding to Uni's woes are demands by some dissident shareholders that the company sell off non-core assets, reduce operating costs by Nkr500m annually and return its attention to domestic life and non-life insurance business.

Moody's, the US-based international rating agency, downgraded to "Not Prime" from "Prime-3" the short-term debt rating of Uni Storebrand A/S, the group's holding company, affecting about \$250m in its Eurocommercial paper programme.

Moody's said the cut stemmed from continued holding company losses, especially those tied to the Skandia investment and volatility in Scandinavia financial markets.

## McDonnell Douglas warns it will make more lay-offs

A MCDONNELL Douglas executive said declining commercial business and not defence spending cuts were mainly responsible for its 33,864 job cuts over the past two years, Reuter reports from St Louis.

Mr James Caldwell, director of new business development for the aerospace contractor, told the Pentagon's Defence Conversion Commission that more lay-offs would occur in the next two years as some Pentagon programmes were terminated.

"Most of the job eliminations directly attributable to defence programme cuts are still ahead of us, and will be felt with particular severity over the next two years," he said.

McDonnell had 99,096 people on its payroll in June, down

from 132,960 in June 1990 because of declining commercial business, divestitures and steps to enhance global competitiveness, he said.

Mr Caldwell told the commission that it expected the US defence market to remain sizeable in spite of budget cuts that could spark more lay-offs.

McDonnell said it completed its \$3bn restructuring programme with the sale of its pulp chemicals business to Sterling Chemicals for about \$202m, Reuter reports from Houston.

The company said the \$3bn in restructuring measures involved the sale of non-core assets valued at \$1.5bn, the issuing of \$716m of equity, capital spending cuts of \$350m, and cost reductions of \$300m.

## Midland Bank to lose creator of Vector account

By David Barclay

MR Kevin Gavaghan, the man who invented Vector, Meridian and Orchard, Midland Bank's branded current accounts, is to leave the bank at the end of September after seven years.

Mr Gavaghan, the best-known advocate of strong branding for high-street banking products, said at the weekend that he had decided to move out of banking and back into mainstream retailing services.

His departure from Midland comes amid the restructuring of the bank in the wake of its takeover by Hongkong Bank.

Mr Gavaghan became Midland's marketing director in 1987, having worked earlier in Thomas Cook, Marks and Spencer, and the Burton Group.

He attracted immediate attention across the industry

by saying his department resembled Procter and Gamble rather than a clearing bank.

By 1989, the branded current accounts which he had designed were picking up 70,000 customers a week, but when the recession began, financial services designed specially for yuppies and jet-setters lost their appeal and the branded accounts were quietly jettisoned.

He said he hoped his chief legacy at Midland would be increased awareness that different groups of customers have different needs.

"I have no regrets. I could not have been in banking at a more interesting time but I am not sure that I want to be in banking in the near future," Mr Gavaghan said. He declined to comment on whether he was being given compensation for leaving.

CROSS BORDER M&A DEALS				
BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Fukutake Publishing (Japan)	Bertelsmann International (US)	Language teaching	\$215m	Many approvals needed
Waste Management International (US/UK)	Svensk Avfallshandling (Sweden)	Waste management	\$24m	Hazardous purchase
Recorded International (Italy)	Leeco Diagnostics (US)	Biotechnology	\$1.8m	Part of 3-stage deal
Aromore Foods (Ireland)	JV	Dairy products	\$0.5m	Liquid milk development
Hessco Inc (US)	Nomura Toys (Japan)	Toys	n/a	Develops existing relationship
Healy Chemicals (Ireland)	Units of BP (UK)	Plastics	n/a	Non-core disposals continue
El-Agoutine (France)	Unit of Schering (Germany)	Recreational	n/a	Another non-core disposal
SmithKline Beecham (US/UK)	JV	Pharmaceuticals	n/a	OTC medicines partnership
Aut (France/Spain)	JV	Insurance	n/a	Subsidiary merger talks on
Unilever (UK/Netherlands)	Unilever (UK/Netherlands)	Food	n/a	Negotiations well advanced

NOTICE OF REDEMPTION  
SALOMON INC.  
MEDIUM TERM NOTES, SERIES B  
FLOATING RATE

NOTICE IS HEREBY GIVEN that Salomon Inc., a Delaware corporation, will redeem as of September 21, 1992 (the "Redemption Date") its Yen 3 billion, 8.25% Senior Note, due September 21, 1995 (the "Yen Note"). The redemption price paid will be the principal amount of the Yen Note. On the Redemption Date, the redemption price will become due and payable upon presentation and surrender of the Yen Note and interest on the Yen Note will cease to accrue on and after said date. The Yen Note should be presented and surrendered for payment at the address below:

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## FLOATING RATE NOTES

## Market may carry seeds of its own destruction

THERE are signs of a revival of interest in the floating rate note market, once the most liquid of the Eurobond market. But some traders who lived through the market's collapse in 1985 believe it may carry the seeds of its own destruction.

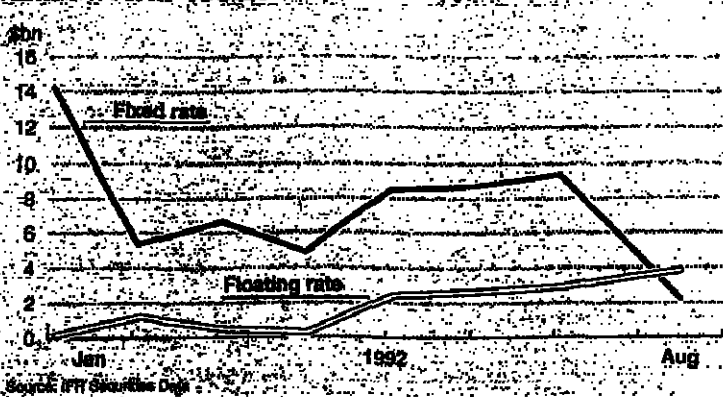
For the first time since 1985, more floating-rate than fixed-rate debt has been issued in the Eurobond market so far this month. BankAmerica's \$500m issue of floating rate notes last week was the largest since the market's heyday in the mid-1980s.

Throughout this year, traders have reported demand from an increasingly broad investor base for paper in the secondary market. Although the market remains dominated by banks, recently fund managers, particularly in the US, and some retail investors have become more active. With dollar interest rates at historic lows, many fund managers believe that interest rates will soon be on their way up.

The credit quality of US banks, which make up a large portion of the issuer base, has started to pick up again, as the US economy emerges from recession. The sector has rallied strongly.

There are some technical reasons for the market's improvement. Swap spreads - the margin which determines at what level a borrower can swap the proceeds of an issue from fixed to floating-rate - have

## Eurodollar issues



tightened to such an extent that for some potential borrowers (mainly banks) it is cheaper to issue floating-rate notes than to issue fixed-rate bonds and swap the proceeds.

Some dealers argue that the increase in demand could easily collapse. Most of the recent surge of new issues has consisted of "coloured" floaters - floating rate notes with minimum and maximum coupon levels. The buyers of these notes have been Swiss investors, keen to lock in coupons of about 5 per cent, at a time when current money market rates are about 1 1/2 points lower. But, to some dealers, the structure is fatally flawed: as soon as money market rates rise above 5 per cent, much of the value

of the paper will be instantly eroded, and investors may face large capital losses.

In the secondary market, consisting mainly of deals issued in or before 1985, the key US bank sector has made the best gains. Some traders argue that the rally can only be partly attributed to credit considerations. Much of the paper in that sector of the market is "floored" - has a minimum coupon level. Investors started buying the paper when money market rates fell below the floor levels on these deals.

If the market is set for a shake-up further down the road, it will not be the first time. In 1985, the market boasted impressive liquidity, with prices for a \$50m trade quoted

at a three basis point spread.

The ability to raise cheap funds in large size attracted not just banks but sovereign borrowers. The largest outstanding deal is a \$4bn floater issued by the UK in 1986, which pays 1/2 point below Libid (the London interbank bid rate) and matures in 1995.

Then, the structure of the market changed suddenly. The investor base was made up largely of banks, which frequently held large portions of each others' capital in the form of subordinated floaters. In 1986, new capital guidelines were mooted by the Basel committee, under which banks holding capital issued by other banks would have it deducted from their capital base.

The perpetual FRN sector collapsed, dragging down prices in the rest of the market with it. "The FRN market was predicated on liquidity, and when it dried up, the market went into free-fall," one trader recalled.

At the end of the 1980s, the sharp deterioration of the credit quality of many banks killed off any remaining interest in dated bank paper.

While the US bank sector has improved sharply this year, the rest of the market is a mixed bag. The perpetual FRN market has not recovered.

European bank floaters have underperformed US bank paper. Demand for Italian and Scandina-

vian bank deals is still flagging, due to the increasing credit concerns about both banking industries, and Japanese bank paper is under pressure. Prices in senior (unsubordinated) paper have been steady. Last week's BankAmerica deal, which some traders felt was too large at \$700m, has tested demand.

Part of the problem for new issues is that they may not mirror secondary market performance. Demand for secondary market paper has been particularly strong from US fund managers, who cannot buy issues until they are seasoned.

However, on the supply side, there are reasons to expect further activity. Banks are keen to take advantage of one of the few markets which gives them access to subordinated debt, as they struggle to meet the Basel capital guidelines which come into force next year. The deluge of collared deals this month bears witness to their enthusiasm.

After half a dozen years of famine, the market may not be able to digest a feast. But investors' appetites, for the moment, are not satiated. Landeskreditbank Baden-Württemberg, the German bank, is planning to launch a \$500m fixed-rate Eurobond, with a maturity of five to 10 years, in early September. JP Morgan has been mandated to arrange the issue.

Tracy Corrigan

## NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
<b>US DOLLARS</b>							
Dresdner Bank AG (H)	200	2002	10	(c)	100	Dresdner Bank	
Fuji Bank Int'l (H)	300	2002	10	(c)	100	Merrill Lynch	
Alisa VIII (H)	200	1996	4	(f)	100	Nomura Int'l	
Fuji Bank Finance (H)	150	1996	3	(g)	100	Fuji Int'l Finance	
Shearson Lehman (H)	125	1996	3	(h)	99.85	Shearson Bros. Int'l	
Yamaichi Int'l	100	1996	3	(i)	100	Yamaichi Int'l	
Kidder Peabody Int'l	210	2002	10	(j)	100	Kidder Peabody Int'l	
KFV Int'l Finance	500	1997	5	(k)	99.85	Deutsche Bank	
BankAmerica Corp. (H)	500	1998	3	(m)	100	Kidder Peabody Int'l	
Credit Foncier (H)	200	2002	10	(n)	100	Paribas Capital Mkts.	
Sumitomo Bank Int'l (H)	125	2002	10	(o)	100	Sumitomo Finance Int'l	
Sumitomo Bank Int'l (H)	250	2007	15	(p)	100	Sumitomo Finance Int'l	
Bank Nat. de Paris	200	1997	5	(q)	101.575	BNP Capital Mkts.	
Columbia 1 Int'l. Fin. (H)	24	1997	5	(u)	100	Salomon Bros Int'l	
Columbia 1 Int'l. Fin. (H)	24	1997	5	(v)	100	Salomon Bros Int'l	
Columbia 1 Int'l. Fin. (H)	24	1997	5	(w)	100	Salomon Bros Int'l	
Bayrische Bank (H)	50	2002	10	(x)	100	Merrill Lynch Int'l	
<b>STERLING</b>							
Spiridon (H)	100	1997	5	(r)	99.61	Natwest Capital Mkts	
<b>CANADIAN DOLLARS</b>							
Swensk Export (H)	150	2002	10	(l)	99.85	Kidder Peabody	
Credit Local de France (H)	125	2002	10	(q)	100	Merrill Lynch Int'l	
<b>DANISH KRONER</b>							
Den Danske Bank	300	1997	5	(t)	101.875	Den Danske Bank	9.512
<b>AUSTRALIAN DOLLARS</b>							
SBAH (H)	250	1998	4	(s)	98.533	S.G. Warburg Secs.	7.940

## Stock-picking: a computable art



I SPENT an instructive morning last week at a portfolio management pitch by a very blue-blooded New York bank. It was impressive. These people claim to have made stock-picking a computable art.

Computable, because it is highly systematic; an art rather than a science, because the aim is shrewdly modest: "To get it a bit less wrong than the others."

To judge by the results, they get it very significantly less wrong. Could one ask for more?

Well, yes; but before we get to the ungrateful bit of this column, the system deserves serious attention. It rests on a large force of analysts, as you might expect; but analysts with a difference; both in approach and motivation.

The approach rests on an effort to measure the underlying long-term trend of earnings, as much as five years ahead; this should give a more objective measure against which to judge price than the normal historic or one-year prospective price-earnings ratio. The result cannot be guaranteed to be superior, but the method certainly generates non-consensual judgments. One for the long view.

How far is this due to superior science (five-year projections are tricky, to put it mildly) and how far to different motivation? Brokers' analysts no doubt struggle to be objective, but essentially they are part of the sales force: their findings are useful to the firm only when they provoke action.

"Buy", by all means; "Sell", if that is the way the cookie crumbles; but "Hold" earns no commission.

For the portfolio manager, on the other hand, "Hold" is the ideal finding. It can't come up all the time, because prices change much more than prospects.

Indeed, so far as this search for underlying value is successful, it will lead to active trading as the market catches up; so this is not the passive, widows-and-orphans style of cautious choice and an annual review (which can also be highly successful).

This is, as it were, active long-termism; the reviews are monthly. (Anything more frequent tends to beat the water into a foam.)

The portfolio analyst has another advantage: he can give proper attention to small companies, where the market liquidity may be too small to offer much business to a serious broker. If you analyse the research brokers put out, you will see that smaller companies only get fitful attention, at best.

You might conclude that the fund manager has a natural advantage over the brokers' man; but why, then, does the average manager trail the index?

He is not pressured into short-termism by the needs of the fund; but a quarterly review seems to produce the same result. And in any case, no individual record can get round the fact that successful stock-picking is by definition a minority knack. If we could all do it, there would be no buying opportunities.

If all this meant only that most fund managers were destined to fall short of their ambitions, we could write it off to institutional arrangements, which could be improved, or human nature, which cannot. But the trouble is that stock-picking is not only usually ill-done; it is habit-forming.

Those who spend their lives brooding over lists forget the big picture. And the big picture is that over the past five years any likely share portfolio - even the one we were inspecting with some wonder - would have underperformed a simple switch into bonds.

hindsight, the frustrated equity man will mutter. But it is not. The bond strategy is not known as the Norwich Union view for nothing.

Cash has also been pretty rewarding in this country, though not in the US. But getting a confirmed equity man even to consider the alternatives is next to impossible especially if he has just spent a morning being shown that somebody is managing to do the job better than he does.

Investment managers (and their committees) should, then, spend a little time in this sad holiday break wondering not just if they could pursue whether their present efforts amount to more than making the best of a bad job.

**BusinessWeek**

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- Four Hot New Management Gurus
- Japan's Computers: No Juggernaut Here
- Mexico's Companies Meet Free Trade
- Blockbuster Global Stock Deals
- How Bush Will Bash Clinton

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NOTICE IS HEREBY GIVEN that:

The Company announced on 21 August 1992 that it had entered into a new facilities agreement with its lenders under which they have agreed to continue the existing loans and facilities until 30 June 1993, subject to certain conditions and to compliance with new covenants. Under the facilities agreement the Company will, subject to compliance with the covenants, be entitled to redeem the Bonds in accordance with the terms of the Trust Deed constituting the Bonds if the directors of the Company expect that, following such redemption, the resources at such time of the Company and its subsidiaries (together, the "Group") will be sufficient to ensure that each member of the Group will be able to carry on its business in accordance with the business plan submitted to the lenders.

The Company, its US subsidiaries and a number of its UK subsidiaries have given guarantees and fixed charges over their interests in the share capital and intra-group indebtedness of other Group members to secure all amounts payable to those lenders and to the holders of the Bonds ("Bondholders"). The Company and these UK subsidiaries have also created fixed and floating charges over all their other assets to secure such amounts. No security has been granted over the assets of the Group's US subsidiaries apart from the above.

Under the arrangements with the lenders and the Company, the Trustee of the Bonds is a beneficiary of the security on behalf of the Bondholders but the Trustee is not entitled to participate in any decision by the lenders as to whether or not to make any action for the purpose of enforcing the security. Bondholders should note that if the security were to be enforced and the Trustee or any Bondholder had taken any action to accelerate or enforce payment of the Bonds, the secured claims of the Trustee and the Bondholders would rank behind the secured claims of the lenders.

A memorandum containing further information regarding the circumstances in which the secured claims of the Trustee and the holders of the Bonds would rank behind those of the lenders, will be available for collection, by Bondholders only, from the following addresses of the Paying and Conversion Agents from 24 August 1992, on production of their Bonds for inspection.

**Paying and Conversion Agent**  
Bankers Trust Company  
1, Appold Street,  
Birmingham,  
London EC2A 2HE

**Paying and Conversion Agents**  
Banque Indus Luxembourg Swiss Bank Corporation  
39, Allée Scheffé Aschmunsstrasse 1  
L-2520 Luxembourg CH-4001 Basle  
Switzerland

This notice should not be taken as constituting any form of recommendation to Bondholders.

**Bankers Trust Company, London** **Agent Bank**  
24 August 1992

**SYMPOSIUM ON EC INTEGRATION AND JAPAN**

Date: 10th September 1992  
(10:00am - 17:00pm)

Venue: Nikkei Hall, 8th Floor, Nihon Keizai Shimbun  
(1-9-5, Otemachi, Chiyoda-ku, Tokyo)

**Issues to be discussed**

- EC Integration and Japan
- The Direction of EC Integration
- The Influence of EC Integration on Japan
- Progress Toward European Integration
- The Emergence of the European Corporation
- The Challenge of Eastern Europe
- Japan in the New Europe

**Speakers**

H.E. Jean-Pierre Leng Ambassador, Delegation of the Commission of the European Communities	Kenji Samejima Senior Managing Director Nihon Keizai Shimbun	Sir Leslie Fielding Former Head of the Delegation of the EC Commission in Japan
Mary Gregory St Hilda's College Oxford University	Ken Mayhew Pembroke College Oxford University	John Purcell Templeton College Oxford University
Jiro Aiko Senior Managing Director Sony Corporation	Herbert R. Wollghehn Vice President L'Air Liquide	

**Coordinator** : Norihiro Mitsuhashi  
Deputy Chief Editorial Writer  
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For further information: Oxford University Japan Office  
4th Floor, Swire House, 14, Ichibancho, Chiyoda-ku, Tokyo 102, Japan  
TEL: (03) 3237-8941 FAX: (03) 3239-8566

Closing date for applications: 28th August 1992

**VENTURE CAPITAL**

The FT proposes to publish this survey on September 25 1992. If you would like to reach the Financial Times audience, which includes the highest readership in Europe of senior business executives within finance and accounting\*, please contact:

Richard Huggins  
Tel: 071-873 3688  
Fax: 071-873 3078

**FT SURVEYS**

**REINSURANCE**

The Financial Times annual survey will be published on September 7 1992. The FT is read by more senior European executives in insurance than any other business publication\*. If you would like to reach this influential audience please contact:

Richard Huggins  
Tel: 071-873 3688  
Fax: 071-873 3078

**FT SURVEYS**

**£75,000,000 HMC FINANCING 3 PLC**  
Class A  
Mortgage Backed Floating Rate Notes due December 2018

Notice is hereby given that there will be a principal payment of £3,694,000 per Note on the interest payment date September 14, 1992. The principal amount outstanding per Note will be £42,317.82.

By: The Chase Manhattan Bank, N.A.  
London, Agent Bank  
August 24, 1992

**FT SURVEYS**

**CVAS 11 LIMITED**  
US\$100,000,000  
Secured Floating Rate Notes due 1998

Interest Rate 5.25000% p.a. Interest Period August 24, 1992 to February 23, 1993. Interest Payable per US\$100,000 Note US\$1,814.20.

August 24, 1992. London. By: Citibank, N.A., (Incorporated in the USA), Agent Bank.

**JEWEL III Limited**  
Incorporated with limited liability in the Channel Islands  
US\$150,000,000 SECURED FLOATING RATE NOTES DUE 1993

Interest Rate 5.25000% Interest Period August 24, 1992 to February 23, 1993. Interest Payable per US\$100,000 Note US\$1,893.62.

August 24, 1992. London. By: Citibank, N.A., (Incorporated in the USA), Agent Bank.

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الأسبوع القادم

## ECONOMICS

## Better news on UK deficit

THE UK's visible trade deficit deteriorated only marginally in June and mainly because of a reduced oil surplus. But the small change masked a sharp fall of 3.5 per cent in the value of exports which was mostly, but not entirely, offset by weaker imports.

Today's figures from the Central Statistical Office are forecast to show a small narrowing of the visible trade deficit even though the recent trend has been for imports to grow faster than exports.

In France, second quarter GDP figures are out on Friday. The forecast is for almost flat growth after a 1.1 per cent rise in output in the first quarter when France was one of Europe's fastest growing economies.

This week could be difficult for the US authorities if the dollar continues to come under pressure. Although there are relatively few sensitive statistics out this week, the Conference Board's consumer confidence survey-out tomorrow is important.

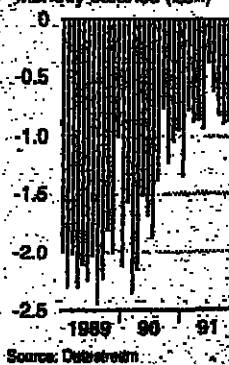
If it does not show signs of life the dollar could suffer further losses and the forecast is for only a marginal increase from 61.0 in July to 61.9 in August.

The following are some of the other economic events of the week. The figures in brackets are the median of analysts forecasts and come from MMS International, a financial information company.

Today: UK, July, current

## UK visible trade

Monthly balance (£bn)



Source: ONS

account (£700m deficit). July visible trade (£900m deficit); Canada, July department store sales (£1.1); New Zealand, July trade balance.

Tomorrow: US, July existing home sales, August consumer confidence (61.9), car sales August 11-20 (6.2m); Canada, June wholesale trade (up 0.6 per cent), June employment earnings (up 3.1 per cent); Australia, skilled vacancies in the second quarter.

Wednesday: US, July durable goods (up 0.5 per cent), July durable shipments, France, July trade balance (£Fr1.5bn surplus); UK, July net new mortgage commitments (£2.2bn); Australia, July manufacturing production statistics, July motor vehicle registrations (down 5.5 per cent).

Thursday: US, preliminary GDP figures Q2 (up 1.6 per cent), preliminary GDP deflator Q2 (up 2.4 per cent), after

tax corporation profit Q2 (up 6 per cent), initial claims for week ended August 15 (403,000), July export price index, July import price index, money supply data for week ended August 17; Australia, Q2 earnings; Japan, July retail sales (down 2.4 per cent on year), July industrial production (up 1.7 per cent).

Friday: US, July personal income (up 0.3 per cent), merchandise trade Q2, July bank credit; UK, Confederation of British Industry - monthly trends survey, France Q2 GDP (up 0.1 per cent); Australia, net foreign debt Q2, company profits Q2, private sector stocks Q2; Japan, July unemployment rate, August consumer prices index - Tokyo (up 1.9 per cent on year), excluding perishables (up 2.2 per cent on year), July CPI - nation (up 2 per cent on year), excluding perishables (up 2.3 per cent on year).

During the week: Germany, preliminary figures for August cost of living (up 0.1 per cent on month, up 3.4 per cent on year), July import prices (down 0.5 per cent on month, down 3.4 per cent on year); France, July unemployment rate (10.3 per cent); Belgium, August CPI (up 2.5 per cent); Italy, July hourly earnings (up 3.6 per cent), July bank lending (up 14.5 per cent), June PSBR, July trade balance (£0.3trillion deficit); Switzerland, August Geneva CPI, August Basel CPI.

Emma Tucker

## UK COMPANIES

## TODAY

COMPANY MEETINGS: Lloyds Bank, 10.00

## BOARD MEETINGS

Finals: Aerospace Engineering, PHH Interims, Roper, Lionheart, Molynx

## TOMORROW

COMPANY MEETINGS: British Gas, 10.00

## BOARD MEETINGS

Finals: Roper & Merc Smaller Co Interims, Briston, British Gas, Lloyds Bank, 10.00

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COMPANY MEETINGS: British Gas, 10.00

## BOARD MEETINGS

Finals: Roper & Merc Smaller Co Interims, Briston, British Gas, Lloyds Bank, 10.00

## SUNDAY

COMPANY MEETINGS: British Gas, 10.00

## BOARD MEETINGS

Finals: Roper & Merc Smaller Co Interims, Briston, British Gas, Lloyds Bank, 10.00

## MONDAY

COMPANY MEETINGS: British Gas, 10.00

## BOARD MEETINGS

Finals: Roper & Merc Smaller Co Interims, Briston, British Gas, Lloyds Bank, 10.00

## TUESDAY

COMPANY MEETINGS: British Gas, 10.00

## BOARD MEETINGS

Finals: Roper & Merc Smaller Co Interims, Briston, British Gas, Lloyds Bank, 10.00

## WEDNESDAY

COMPANY MEETINGS: British Gas, 10.00

## BOARD MEETINGS

Finals: Roper & Merc Smaller Co Interims, Briston, British Gas, Lloyds Bank, 10.00

## THURSDAY

COMPANY MEETINGS: British Gas, 10.00

## BOARD MEETINGS

Finals: Roper & Merc Smaller Co Interims, Briston, British Gas, Lloyds Bank, 10.00

## FRIDAY

COMPANY MEETINGS: British Gas, 10.00

## BOARD MEETINGS

Finals: Roper & Merc Smaller Co Interims, Briston, British Gas, Lloyds Bank, 10.00

## SATURDAY

COMPANY MEETINGS: British Gas, 10.00

## BOARD MEETINGS

Finals: Roper & Merc Smaller Co Interims, Briston, British Gas, Lloyds Bank, 10.00

## SUNDAY

COMPANY MEETINGS: British Gas,



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# CURRENCIES, MONEY AND CAPITAL MARKETS

## FOREIGN EXCHANGES AND MONEY MARKETS

### A dazzling D-Mark

The question now facing the world's central banks is how the dollar's fall can be stabilised, writes James Blue.

Recent interventions show that the US authorities do not want to see the dollar fall uncontrollably, if at all. There is a negative impact on equity markets: the Dow Jones index

But can intervention work? The fundamental problem is that the US, Germany and Japan are pursuing domestic-oriented policies which put less emphasis than usual on exchange rates.

That dysfunction has widened the differential between US and German short-term rates so far that the markets are dazzled by the D-Mark's investment potential. It has undermined the credibility of concerted intervention, too. By buying dollars, the Bundesbank puts D-Marks into circulation and

Arguably, the only factor which will underpin the dollar is the US economy, which will push US rates up, or cut in Germany's interest rates. Analysts see no sign of the former, but Germany's slide into recession may bring a rate cut by the end of this year. Until then, central banks may pay heavily in reserves to stabilise the currency system.

UK clearing bank base lending rate 10 per cent from May 5, 1992

fell by over 50 points on Friday. The dollar's fall also increases strains in the European Exchange Rate Mechanism as traders sell dollars for D-Marks, pushing up the German currency's value.

Many dealers believe that the Fed is planning more rounds of intervention, in the hope of turning the market once-and-for-all. With the dollar testing DM1.42, it must be easier to convince the market into thinking that there are profits to be made.

## £ IN NEW YORK

Aug 21	Close	Previous
1 month	1.9545-1.9555	1.9500-1.9500
3 months	1.9510-1.9520	1.9475-1.9485
12 months	1.9310-1.9320	1.9275-1.9285

## STERLING INDEX

Aug 21	Close	Previous
8.30 am	91.8	91.9
10.00 am	91.8	91.9
11.00 am	91.8	91.9
12.00 pm	91.8	91.9
1.00 pm	91.7	91.8
4.00 pm	91.7	91.8

## OTHER CURRENCIES

Aug 21	Close	Previous
Australia	1.5110-1.5120	1.5080-1.5090
Canada	1.2610-1.2620	1.2580-1.2590
France	1.6510-1.6520	1.6480-1.6490
Germany	1.9310-1.9320	1.9280-1.9290
Italy	1.3610-1.3620	1.3580-1.3590
Japan	161.10-161.20	160.80-160.90
South Korea	181.10-181.20	180.80-180.90
Switzerland	1.4810-1.4820	1.4780-1.4790
UK	91.80-91.90	91.50-91.60
US	1.9545-1.9555	1.9500-1.9500

## CHICAGO

Aug 21	Close	Previous
US Treasury Bonds	102.25-102.35	102.10-102.20
US Treasury Notes	101.75-101.85	101.60-101.70
US Treasury Bills	98.75-98.85	98.60-98.70
US Treasury Futures	102.25-102.35	102.10-102.20
US Treasury Options	102.25-102.35	102.10-102.20

## FT ACTUARIES WORLD INDICES

Aug 21	Close	Previous
US	102.25-102.35	102.10-102.20
UK	91.80-91.90	91.50-91.60
Germany	1.9310-1.9320	1.9280-1.9290
France	1.6510-1.6520	1.6480-1.6490
Italy	1.3610-1.3620	1.3580-1.3590
Japan	161.10-161.20	160.80-160.90
South Korea	181.10-181.20	180.80-180.90
Switzerland	1.4810-1.4820	1.4780-1.4790
UK	91.80-91.90	91.50-91.60
US	1.9545-1.9555	1.9500-1.9500

## CURRENCY MOVEMENTS

Aug 21	Close	Previous
US	1.9545-1.9555	1.9500-1.9500
UK	91.80-91.90	91.50-91.60
Germany	1.9310-1.9320	1.9280-1.9290
France	1.6510-1.6520	1.6480-1.6490
Italy	1.3610-1.3620	1.3580-1.3590
Japan	161.10-161.20	160.80-160.90
South Korea	181.10-181.20	180.80-180.90
Switzerland	1.4810-1.4820	1.4780-1.4790
UK	91.80-91.90	91.50-91.60
US	1.9545-1.9555	1.9500-1.9500

## CURRENCY RATES

Aug 21	Close	Previous
US	1.9545-1.9555	1.9500-1.9500
UK	91.80-91.90	91.50-91.60
Germany	1.9310-1.9320	1.9280-1.9290
France	1.6510-1.6520	1.6480-1.6490
Italy	1.3610-1.3620	1.3580-1.3590
Japan	161.10-161.20	160.80-160.90
South Korea	181.10-181.20	180.80-180.90
Switzerland	1.4810-1.4820	1.4780-1.4790
UK	91.80-91.90	91.50-91.60
US	1.9545-1.9555	1.9500-1.9500

## FT LONDON INTERBANK FIXING

Aug 21	Close	Previous
US	1.9545-1.9555	1.9500-1.9500
UK	91.80-91.90	91.50-91.60
Germany	1.9310-1.9320	1.9280-1.9290
France	1.6510-1.6520	1.6480-1.6490
Italy	1.3610-1.3620	1.3580-1.3590
Japan	161.10-161.20	160.80-160.90
South Korea	181.10-181.20	180.80-180.90
Switzerland	1.4810-1.4820	1.4780-1.4790
UK	91.80-91.90	91.50-91.60
US	1.9545-1.9555	1.9500-1.9500

## NEW YORK

Aug 21	Close	Previous
US	1.9545-1.9555	1.9500-1.9500
UK	91.80-91.90	91.50-91.60
Germany	1.9310-1.9320	1.9280-1.9290
France	1.6510-1.6520	1.6480-1.6490
Italy	1.3610-1.3620	1.3580-1.3590
Japan	161.10-161.20	160.80-160.90
South Korea	181.10-181.20	180.80-180.90
Switzerland	1.4810-1.4820	1.4780-1.4790
UK	91.80-91.90	91.50-91.60
US	1.9545-1.9555	1.9500-1.9500

## BRITISH FUNDS

Aug 21	Close	Previous
US	1.9545-1.9555	1.9500-1.9500
UK	91.80-91.90	91.50-91.60
Germany	1.9310-1.9320	1.9280-1.9290
France	1.6510-1.6520	1.6480-1.6490
Italy	1.3610-1.3620	1.3580-1.3590
Japan	161.10-161.20	160.80-160.90
South Korea	181.10-181.20	180.80-180.90
Switzerland	1.4810-1.4820	1.4780-1.4790
UK	91.80-91.90	91.50-91.60
US	1.9545-1.9555	1.9500-1.9500

## WORLD STOCK INDICES

Aug 21	Close	Previous
US	1.9545-1.9555	1.9500-1.9500
UK	91.80-91.90	91.50-91.60
Germany	1.9310-1.9320	1.9280-1.9290
France	1.6510-1.6520	1.6480-1.6490
Italy	1.3610-1.3620	1.3580-1.3590
Japan	161.10-161.20	160.80-160.90
South Korea	181.10-181.20	180.80-180.90
Switzerland	1.4810-1.4820	1.4780-1.4790
UK	91.80-91.90	91.50-91.60
US	1.9545-1.9555	1.9500-1.9500

## FOUNDER SPOT - FORWARD AGAINST THE POUND

Aug 21	Close	Previous
US	1.9545-1.9555	1.9500-1.9500
UK	91.80-91.90	91.50-91.60
Germany	1.9310-1.9320	1.9280-1.9290
France	1.6510-1.6520	1.6480-1.6490
Italy	1.3610-1.3620	1.3580-1.3590
Japan	161.10-161.20	160.80-160.90
South Korea	181.10-181.20	180.80-180.90
Switzerland	1.4810-1.4820	1.4780-1.4790
UK	91.80-91.90	91.50-91.60
US	1.9545-1.9555	1.9500-1.9500

## DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Aug 21	Close	Previous
US	1.9545-1.9555	1.9500-1.9500
UK	91.80-91.90	91.50-91.60
Germany	1.9310-1.9320	1.9280-1.9290
France	1.6510-1.6520	1.6480-1.6490
Italy	1.3610-1.3620	1.3580-1.3590
Japan	161.10-161.20	160.80-160.90
South Korea	181.10-181.20	180.80-180.90
Switzerland	1.4810-1.4820	1.4780-1.4790
UK	91.80-91.90	91.50-91.60
US	1.9545-1.9555	1.9500-1.9500

## EXCHANGE CROSS RATES

Aug 21	Close	Previous
US	1.9545-1.9555	1.9500-1.9500
UK	91.80-91.90	91.50-91.60
Germany	1.9310-1.9320	1.9280-1.9290
France	1.6510-1.6520	1.6480-1.6490
Italy	1.3610-1.3620	1.3580-1.3590
Japan	161.10-161.20	160.80-160.90
South Korea	181.10-181.20	180.80-180.90
Switzerland	1.4810-1.4820	1.4780-1.4790
UK	91.80-91.90	91.50-91.60
US	1.9545-1.9555	1.9500-1.9500

## EURO CURRENCY INTEREST RATES

Aug 21	Close	Previous
US	1.9545-1.9555	1.9500-1.9500
UK	91.80-91.90	91.50-91.60
Germany	1.9310-1.9320	1.9280-1.9290
France	1.6510-1.6520	1.6480-1.6490
Italy	1.3610-1.3620	1.3580-1.3590
Japan	161.10-161.20	160.80-160.90
South Korea	181.10-181.20	180.80-180.90
Switzerland	1.4810-1.4820	1.4780-1.4790
UK	91.80-91.90	91.50-91.60
US	1.9545-1.9555	1.9500-1.9500

## WEEKLY CHANGE IN WORLD INTEREST RATES

Aug 21	Close	Previous
US	1.9545-1.9555	1.9500-1.9500
UK	91.80-91.90	91.50-91.60
Germany	1.9310-1.9320	1.9280-1.9290
France	1.6510-1.6520	1.6480-1.6490
Italy	1.3610-1.3620	1.3580-1.3590
Japan	161.10-161.20	160.80-160.90
South Korea	181.10-181.20	180.80-180.90
Switzerland	1.4810-1.4820	1.4780-1.4790
UK	91.80-91.90	91.50-91.60
US	1.9545-1.9555	1.9500-1.9500

## FINANCIAL TIMES STOCK INDICES

Aug 21	Close	Previous
US	1.9545-1.9555	1.9500-1.9500
UK	91.80-91.90	91.50-91.60
Germany	1.9310-1.9320	1.9280-1.9290
France	1.6510-1.6520	1.6480-1.6490
Italy	1.3610-1.3620	1.3580-1.3590
Japan	161.10-161.20	160.80-160.90
South Korea	181.10-181.20	180.80-180.90
Switzerland	1.4810-1.4820	1.4780-1.4790
UK	91.80-91.90	91.50-91.60
US	1.9545-1.9555	1.9500-1.9500

## LONDON SHARE SERVICE

Aug 21	Close	Previous
US	1.9545-1.9555	1.9500-1.9500
UK	91.80-91.90	91.50-91.60
Germany	1.9310-1.9320	1.9280-1.9290
France	1.6510-1.6520	1.6480-1.6490
Italy	1.3610-1.3620	1.3580-1.3590
Japan	161.10-161.20	160.80-160.90
South Korea	181.10-181.20	180.80-180.90
Switzerland	1.4810-1.4820	1.4780-1.4790
UK	91.80-91.90	91.50-91.60
US	1.9545-1.9555	1.9500-1.9500

## BRITISH FUNDS

Aug 21	Close	Previous
US	1.9545-1.9555	1.9500-1.9500
UK	91.80-91.90	91.50-91.60
Germany	1.9310-1.9320	1.9280-1.9290
France	1.6510-1.6520	1.6480-1.6490
Italy	1.3610-1.3620	1.3580-1.3590
Japan	161.10-161.20	160.80-160.90
South Korea	181.10-181.20	180.80-180.90
Switzerland	1.4810-1.4820	1.4780-1.4790
UK	91.80-91.90	91.50-91.60
US	1.9545-1.9555	1.9500-1.9500

## WORLD STOCK INDICES

Aug 21	Close	Previous
US	1.9545-1.9555	1.9500-1.9500
UK	91.80-91.90	91.50-91.60
Germany	1.9310-1.9320	1.9280-1.9290
France	1.6510-1.6520	1.6480-1.6490
Italy	1.3610-1.3620	1.3580-1.3590
Japan	161.10-161.20	160.80-160.90
South Korea	181.10-181.20	180.80-180.90
Switzerland	1.4810-1.4820	1.4780-1.4790
UK	91.80-91.90	91.50-91.60
US	1.9545-1.9555	1.9500-1.9500

## LONDON RECENT ISSUES

Aug 21	Close	Previous
US	1.9545-1.9555	1.9500-1.9500
UK	91.80-91.90	91.50-91.60
Germany	1.9310-1.9320	1.9280-1.9290
France	1.6510-1.6520	1.6480-1.6490
Italy	1.3610-1.3620	1.3580-1.3590
Japan	161.10-161.20	160.80-160.90
South Korea	181.10-181.20	180.80-180.90
Switzerland	1.4810-1.4820	1.4780-1.4790
UK	91.80-91.90	91.50-91.60
US	1.9545-1.9555	1.9500-1.9500

## FIXED INTEREST STOCKS

FIXED INTEREST STOCKS						
Issue Price £	Amount Paid up	Latest Request Date	1992		Maturity	Sinking Price £
			High	Low		
100p	FP	-	110p	160 1/2	1999 Jan 17 to 1999 Jan 21	107 1/2







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## NEW YORK STOCK EXCHANGE COMPOSITE PRICES

Continued on next page



**NASDAQ NATIONAL MARKET**

Stock	P/E	High	Low	Last	Chang	Stock	P/E	High	Low	Last	Chang	Stock	P/E	High	Low	Last	Chang			
Atlantic	24	895	37	94	+	Deo Corp	12	24	9	9	+	Lin Tech	17	1888	13	124	13	+		
ACC Corp	26	181	191	144	15	-	Dow Inc	16	61	26	26	+	Lancaster	10	189	266	32	31	32	+
Accor E	12	656	91	91	+	Dow Inc	23	4	1	26	26	+	Lande Inc	0.92	19	24	24	24	24	+
Accor E	12	656	91	91	+	Dow Inc	23	4	1	26	26	+	Lande Inc	0.92	19	24	24	24	24	+
Accor E	12	656	91	91	+	Dow Inc	23	4	1	26	26	+	Lande Inc	0.92	19	24	24	24	24	+
Accor E	12	656	91	91	+	Dow Inc	23	4	1	26	26	+	Lande Inc	0.92	19	24	24	24	24	+
Accor E	12	656	91	91	+	Dow Inc	23	4	1	26	26	+	Lande Inc	0.92	19	24	24	24	24	+
Accor E	12	656	91	91	+	Dow Inc	23	4	1	26	26	+	Lande Inc	0.92	19	24	24	24	24	+
Accor E	12	656	91	91	+	Dow Inc	23	4	1	26	26	+	Lande Inc	0.92	19	24	24	24	24	+
Accor E	12	656	91	91	+	Dow Inc	23	4	1	26	26	+	Lande Inc	0.92	19	24	24	24	24	+
Accor E	12	656	91	91	+	Dow Inc	23	4	1	26	26	+	Lande Inc	0.92	19	24	24	24	24	+
Accor E	12	656	91	91	+	Dow Inc	23	4	1	26	26	+	Lande Inc	0.92	19	24	24	24	24	+
Accor E	12	656	91	91	+	Dow Inc	23	4	1	26	26	+	Lande Inc	0.92	19	24	24	24	24	+
Accor E	12	656	91	91	+	Dow Inc	23	4	1	26	26	+	Lande Inc	0.92	19	24	24	24	24	+
Accor E	12	656	91	91	+	Dow Inc	23	4	1	26	26	+	Lande Inc	0.92	19	24	24	24	24	+
Accor E	12	656	91	91	+	Dow Inc	23	4	1	26	26	+	Lande Inc	0.92	19	24	24	24	24	+
Accor E	12	656	91	91	+	Dow Inc	23	4	1	26	26	+	Lande Inc	0.92	19	24	24	24	24	+
Accor E	12	656	91	91	+	Dow Inc	23	4	1	26	26	+	Lande Inc	0.92	19	24	24	24	24	+
Accor E	12	656	91	91	+	Dow Inc	23	4	1	26	26	+	Lande Inc	0.92	19	24	24	24	24	+
Accor E	12	656	91	91	+	Dow Inc	23	4	1	26	26	+	Lande Inc	0.92	19	24	24	24	24	+
Accor E	12	656	91	91	+	Dow Inc	23	4	1	26	26	+	Lande Inc	0.92	19	24	24	24	24	+
Accor E	12	656	91	91	+	Dow Inc	23	4	1	26	26	+	Lande Inc	0.92	19	24	24	24	24	+
Accor E	12	656	91	91	+	Dow Inc	23	4	1	26	26	+	Lande Inc	0.92	19	24	24	24	24	+
Accor E	12	656	91	91	+	Dow Inc	23	4	1	26	26	+	Lande Inc	0.92	19	24	24	24	24	+
Accor E	12	656	91	91	+	Dow Inc	23	4	1	26	26	+	Lande Inc	0.92	19	24	24	24	24	+
Accor E	12	656	91	91	+	Dow Inc	23	4	1	26	26	+	Lande Inc	0.92	19	24	24	24	24	+
Accor E	12	656	91	91	+	Dow Inc	23	4	1	26	26	+	Lande Inc	0.92	19					

## 4:00 pm prices August 21

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**FINANCIAL TIMES**  
EUROPE'S BUSINESS NEWSPAPER

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## MONDAY INTERVIEW

## The broad mind of travel

Martin Brackenbury, president of the International Federation of Tour Operators, talks to Michael Skapinker

In David Lodge's novel *Paradise News*, an anthropologist called Roger Sheldrake argues that the package holiday is the modern-day equivalent of the religious pilgrimage, that guide books are devotional aids, and that a dip in the hotel pool is a form of baptism.

"Tourism is the new world religion," Sheldrake tells a fellow-traveller to Hawaii. "Catholics, Protestants, Hindus, Moslems, Buddhists, atheists - the one thing they have in common is they all believe in the importance of seeing the Parthenon, or the Sistine Chapel, or the Eiffel Tower."

Modern tourism's gigantic migrations preoccupy Martin Brackenbury too. There are currently about 360m people travelling abroad on holiday every year. In the next 10 years, he says, that figure could double.

Brackenbury is one of the tourist industry's most senior figures, with as many titles as there are delayed departures from Gatwick airport.

He is president of the International Federation of Tour Operators (IFTO), which represents travel companies in 17 countries; chairman of the Tour Operators' Study Group (TOSG), the UK holiday companies' oddly named trade body; chairman of the TOSG's trust fund, which Brackenbury lists home when companies fail; a member of the national council of the Association of British Travel Agents; and a director of Thomson, Britain's biggest travel group.

He is also, like the fictional Roger Sheldrake, a trained anthropologist, having studied the subject at Cambridge. But he does not think much of the idea that tourism's growth is linked to organised religion's decline. People travel, he says, when they have money and political freedom.

"If you have growth in discretionary income, the propensity to travel doesn't grow in a linear fashion, but in an exponential one," he says.

As to political freedom, 800,000 people travelled to the west from Czechoslovakia in 1989. The following year, after the collapse of communism, the figure rose to 8.1m. Many east Europeans do not now have the money to travel, but when they do they will join millions of other new tourists.

"The eastern Europeans will travel south, to the cheaper areas of the Mediterranean, to parts of Greece. In Japan and the Pacific Basin there are more people who will want to travel. And then there are lots of people who until now haven't even considered travelling: Chinese, Indians."

Given the profit these new tourists could offer to the company Brackenbury helps run and to the others he represents, he is curiously ambivalent about the prospect. On the one hand, he says, "the underlying idea that people should have the ability to travel must be a blow for freedom."

On the other hand, "too many people gathered together in one place. Some of the eastern coastal resorts of Italy have become overdeveloped, anonymous, and have lost whatever character they had."

Roger Sheldrake's solution is to end tourism by pointing out to the holidaymakers how miserable they are. "Look deep into their eyes," Lodge has him say, "and you will see anxiety and dread."

Brackenbury agrees that holidays are stressful. "There's a much higher level of anxiety when people go away. They're not only going to a place which is unfamiliar, through which they somehow have to shepherd their children. They're also with their partner 24 hours a day for two weeks. That comes as quite a shock."

In the strangeness of the holiday environment, tourists cling to the familiar. "Tourism, in the main, is about people making migrations in very large numbers for very short periods of time. So when they are taking a holiday away from Germany and going to Majorca, they're seeking a German holiday in Majorca. Equally, the English are seeking an English holiday in Spain, not a Spanish holiday - largely because it's such a short time."

The current trend away from hotel holidays to self-catering apartments and villas does not imply greater confidence in dealing with foreign cultures, Brackenbury says. People simply like the familiarity of self-catering. Buying your own food does not require much contact with local people. Many self-catering complexes have restaurants and supermarkets on site, which sell



Anthony Ashworth

## The English seek an English holiday in Spain

what English or German visitors want to buy.

If the tourists want what they have at home, why don't they stay there? "Part of it is habit," Brackenbury says. "You've got a holiday and you ought to go away. If you stay at home, you end up doing odd jobs and watching television."

"People see that by going away, they are enhancing their world in some way. They are looking, in general, for new experiences." But new experi-

ences that are unthreatening? "Yes, in a rather controlled environment."

Whatever the stresses of being abroad, Thomson's surveys show that people do enjoy their holidays, Brackenbury says. He rejects the view that the foreign holiday has gone out of fashion. The reported fall in European tourism this year is purely the result of economic hard times, he insists.

The problems caused by tourism cannot be solved by reducing the number of tourists because people are not going to stop taking holidays. "Try denying them the opportunity," Brackenbury says. "People, in general, feel the

potential of having to fight a case for damages in the courts. But that is precisely what every editor has to consider when judging the risk of a libel action for something he wishes to publish."

Too much of the debate on privacy is focusing on the extent to which private lives of public figures are fair game. While the public figure issue is of great significance, the threshold decision, whether society should accord legal protection to the private lives of all its citizens, needs to be made before discussing any differing standards for those who choose to be engaged in public affairs.

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better for the experience. It's revitalising in some way. People find that by taking holidays they get a different perspective on their own activities. Most people are so involved in what they do day-to-day that they don't take time to step back."

What the tourist industry has started to do is think about how to preserve the environment and ambience of its resorts, Brackenbury says. The Majorcan seaside town of Magaluf degenerated to the point where families were staying away. It has had some success in winning them back by improving facilities and curbing the owners of nightspots.

In the past, the tourist industry developed its Magalufs and, when they became too down-market, moved on to Greece, Turkey, Africa or the Caribbean. "They could do that in the 1970s, and to some extent during the 1980s. But talking to my colleagues in Ifto, they no longer believe that is possible. The reason for that is there is nowhere else to move on to," Brackenbury says.

"That means that the places they've got, which they've invested an awful lot of time developing, are the ones that they're going to have to stick with if they're going to have a business for the future. That lies at the centre of their concern with environmental issues. It's nothing to do with altruism and long-term views on the planet. The only way we can make this business work is if people are satisfied when they get there. It's entirely to do with self-interest."

Beyond such pragmatism, Brackenbury the anthropologist must surely have some views on people's peculiar

practice of leaving their home to spend two weeks in a country where they do not speak the language and mistrust the food. If it does not resemble the religious rituals of previous ages, what does it resemble?

Somewhat reluctantly, Brackenbury ventures a guess. "In simple societies, you don't have any clear examples of what you would call leisure. But you do have examples of celebration. They usually involve sacrifice of some sort or initiation ceremonies, and people have high degrees of anxiety about that. But they come out at the other side bigger and somehow enhanced as individuals. And then they have a big celebration and they collectively feel better. It seems to me that there are certain analogies with that in taking a holiday."

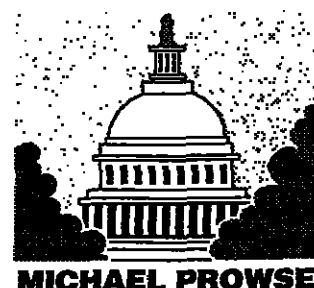
## The Emperor has no plan

The Republican conference was like a performance of Hamlet without the Prince. The delegates, living in a fantasy land of their own, simply refused to acknowledge the brooding presence of an enfeebled economy. Outside the Astor dome everybody was complaining about the lack of growth and jobs. Inside, the economy was barely mentioned; the talk was of glorious foreign policy triumphs, the threat from "deviant" lifestyles and the evils of abortion.

In an outpouring of vitriol, Governor Bill Clinton was caricatured as a skirt-chasing, pot-smoking, draft-dodging proponent of gay and lesbian rights. President George Bush plunged in the final dagger claiming (falsely) that Mr Clinton was anti-enterprise, would raise taxes on anybody with a job, and favoured huge increases in federal bureaucracy. Some overnight polls showed a surge in Mr Bush's support, although whether such crude Clinton-bashing will provide lasting benefits is uncertain.

As Houston fades from memory, the economy must reappear as the crucial issue: there is still no sign of the vigorous recovery the White House first predicted 18 months ago. And it was ironic that as Mr Bush put final touches on a speech celebrating US strength, the dollar - which nobody in political circles ever mentions - was plunging toward a new post-second world war low against the D-mark. Even if Mr Bush escapes a full-blown dollar crisis, he may pay dearly for the off-hand vacuity of his economic proposals. Voters will surely not be impressed by his offer of a tax cut balanced by new spending cuts, when not even a dime of those savings was specified.

And the touted "big idea" - that taxpayers should be able to earmark up to 10 per cent of their taxes for debt reduction - hardly survives scrutiny. The intention is that spending would be cut each time a taxpayer ticked the debt reduction



MICHAEL PROWSE on America

box. If the plan were feasible it would be unpleasant: in effect rich individuals would be able to veto programmes for the poor. But since a Democratic Congress would never approve so arbitrary a form of spending control, Mr Bush's plan would be no more than an irrelevant accounting gesture, with money moving harmlessly from one pocket to another.

So where do the candidates stand on economic policy after the two party conventions? Mr Clinton has been attacked for claiming he would "halve the deficit" while substantially raising spending on infrastructure and education. This may sound as implausible as former president Ronald Reagan's promise to balance the budget while cutting taxes.

The point is this. The Clinton team is not proposing policy changes that will halve the deficit (how could they when their tax and spending proposals roughly balance?). All they are saying is that their policies will not prevent the decline in the deficit projected by nearly all forecasters as the economy moves out of recession and as distortions (such as the savings and loan bailout) fade.

I suspect Mr Clinton will prove more fiscally conservative than Mr Bush. However, it would be suicidal to be more explicit in a campaign. It was probably a mistake even to promise higher taxes on the top 2 per cent.

In judging the Bush and Clinton plans it is far more important to understand the very real philosophical differences. In his offhand way, Mr Bush is advocating a continuation of Mr Reagan's supply-side

doctrines. Cuts in income and (especially) capital taxes are seen as ways of stimulating growth by encouraging affluent Americans to save and invest. The problem is that huge cuts in tax rates in the 1980s did not raise savings, investment or productivity growth.

Mr Clinton is also offering a supply-side strategy, fathered by Mr Robert Reich of Harvard University. It works rather differently. The premise is that in a world of mobile physical and financial capital, government can best promote higher living standards by focusing on factors of production that are relatively fixed.

The two factors that cannot move at all easily are people and infrastructure. By advocating higher investment in education and training, the Clinton team hopes directly to increase the productivity of American workers, thus raising the wages they can earn in competitive markets. By investing in public infrastructure, the team hopes directly to increase the return that private entrepreneurs (of whatever nationality) can earn by locating plant and equipment in the US.

The Clinton plan is a step in uncharted waters. But plenty of academic research suggests it could work. The economic return to extra years of education has steadily risen, suggesting that this is the most potent investment now available. The link between the profitability of private business and the quality of public infrastructure (be it canals, roads or fibre optics) is long established.

Mr Clinton's modest proposals for channelling an extra \$200bn into education, training and infrastructure over four years will not transform American productivity. But it is a reasoned response to the challenge posed by global economic competition that should appeal to the millions of middle-income Americans who have seen their wages stagnate for a decade. It is certainly more innovative than anything Mr Bush has proposed.

## The perils of private life

Amid the welter of public discussion over the stealthy photographic indiscretions of the Duchess of York splattered across the pages of the tabloid newspapers last week, little attention has been paid to the inactivity of the law.

That is because in this country there is no legally enforceable right to privacy. This was demonstrated all too clearly by the dismissal by Mr Justice Latham of the 11th-hour application by Mr John Bryant, the Duchess's adviser and companion, for an injunction against the Daily Mirror, which proceeded to publish the photos.

But supposing there were to be a new tort (a civil wrong) for the invasion of an individual's private life. Would it, as it is widely claimed, inhibit investigative journalism and prevent publication of matters which are newsworthy or of legitimate concern to the public?

It is important at the outset to distinguish between the methods used by journalists to acquire information and take photographs, and the decisions of editors to publish. The latter is the focus of the present discussion.

The Calcutt Committee on Privacy and Related Matters in 1990 accepted that private lives should be protected from public exposure. The committee proposed that three forms of journalistic trespass should be made criminal. The government has not said whether it accepts or rejects these proposals.

However, Calcutt stopped short of endorsing the claims for a civil remedy. Its proposals failed to discern that invasion of privacy goes beyond what objectively appears to be physi-



JUSTINIAN

cal invasion. Publication of private matters is the cause of the hurt and harm to individuals. Preventing journalists' investigations may not in practice be easy, or even desirable. Publication, however, can be more readily visited by a pre-emptive legal strike - namely the injunction.

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The courts have said time and time again that they will not stop publication of defamatory statements in any case where the person who wants to publish is prepared to defend what he has published in any court action. Threats by angry

clients and their solicitors to stop the presses rolling with last-minute dashes to the High Court are largely bluff.

It is worth recalling Lord Denning's remarks in a case in 1969: "The court will not restrain the publication of an article, even though it is defamatory, when the defendant says he intends to justify it or to make fair comment on a matter of public interest. The reason sometimes given is that the defences of justification and fair comment are for the jury. But a better reason is the importance in the public interest that the truth should out. The right of free speech is one which it is for the public interest that individuals should possess, and, indeed, that they should exercise without impediment, so long as no wrongful act is done. There is no wrong done if it is true, or if it is fair comment on the matter of public interest. The court will not preclude the issue by granting an injunction in advance of publication."

In like fashion the courts would resort to any action brought on the grounds of an invasion of privacy. The mere raising of the defence of public interest would instantly stifle any injunction pending the trial. English courts do not generally countenance prior restraint any more than do their American counterparts employing the first amendment to the US constitution guaranteeing freedom of the press.

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CROSSWORD

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- ACROSS
- Ship's officer sure to be involved in public relations (6)
  - Inadequate way to quote returns (8)
  - Old instrument about to fall short produces hostile feeling (7)
  - Pool resources? (7)
  - The most important state, they say (4)
  - The colourful beauty of London? (10)
  - Vine upset church's probationary member (6)
  - It needs to be proved as a rule (7)
  - Wicked RA set on disloyalty (7)
  - Neat traveller encounters tramp coming back (6)
  - University performance a failure - backing enough (10)
  - Fashion model (4)
  - I'm opposing the move (7)
  - The limits of even the brighter ministers (7)
  - A time in place of worship forming a pattern (8)
  - Special delivery? (6)
- DOWN
- And 22 One working at a lower level, however talented (6,6)
  - One that rescued a dog (9)
  - Give out in the MJ (third lane) (4)
  - The way to travel in Germany (5)
  - Certain curves confused player? Bosh! (10)
  - Savour experience? (5)
  - And 19 LEWIS? I catch more playing near Birmingham (9,3)
  - Fold left in decomposed vegetable matter (5)
  - Row with copper, say, likely to be heated (6,6)
  - Initially, he's for it (5)
  - Puffed out, but could be at the head (5)
  - See 8 down
  - View the boats I've photographed coming up (5)
  - A little sparkle! The French mag could produce it (5)
  - Travelling bag? Don't lose it (4)

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